HomeStreet, Inc.
Form 10-Q
August 03, 2018

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2017-06-30 0001518715 us-gaap:FacilityClosingMember 2018-01-01 2018-06-30 0001518715
us-gaap:FacilityClosingMember 2016-12-31 0001518715 us-gaap:FacilityClosingMember 2017-01-01 2017-06-30
0001518715 us-gaap:EmployeeSeveranceMember 2018-01-01 2018-06-30 xbrli:pure iso4217:USD xbrli:shares
iso4217:USD xbrli:shares hmst:segment hmst:loan hmst:claim

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: June 30, 2018
Commission file number: 001-35424

HOMESTREET, INC.

(Exact name of registrant as specified in its charter)

Washington	**91-0186600**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

601 Union Street, Suite 2000
Seattle, Washington 98101
(Address of principal executive offices)
(Zip Code)

(206) 623-3050

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer	o	Accelerated Filer	x
Non-accelerated Filer	o	Smaller Reporting Company	o
Emerging growth Company	o		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 12(a) of the Exchange Act.	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of outstanding shares of the registrant's common stock as of August 1, 2018 was 26,985,537.6.

PART I – FINANCIAL INFORMATION

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Unless we state otherwise or the content otherwise requires, references in this Form 10-Q to “HomeStreet,” “we,” “our,” “us” or the “Company” refer collectively to HomeStreet, Inc., a Washington corporation, HomeStreet Bank (“Bank”), HomeStreet Capital Corporation (“HomeStreet Capital”) and other direct and indirect subsidiaries of HomeStreet, Inc.

PART I
ITEM 1
FINANCIAL
STATEMENTS

HOMESTREET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

(in thousands, except share data)	June 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents (including interest-earning instruments of $126,083 and $30,268)	$176,218	$72,718
Investment securities (includes $829,422 and $846,268 carried at fair value)	907,457	904,304
Loans held for sale (includes $527,088 and $577,313 carried at fair value)	568,514	610,902
Loans held for investment (net of allowance for loan losses of $39,480 and $37,847; includes $4,187 and $5,477 carried at fair value)	4,883,310	4,506,466
Mortgage servicing rights (includes $245,744 and $258,560 carried at fair value)	272,205	284,653
Other real estate owned	752	664
Federal Home Loan Bank stock, at cost	48,157	46,639
Premises and equipment, net	99,155	104,654
Goodwill	22,564	22,564
Other assets	185,545	188,477
Total assets	$7,163,877	$6,742,041
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Liabilities:		
Deposits	$5,120,285	$4,760,952
Federal Home Loan Bank advances	1,008,613	979,201
Accounts payable and other liabilities	173,145	172,234
Other borrowings	30,007	—
Long-term debt	125,368	125,274
Total liabilities	6,457,418	6,037,661
Commitments and contingencies (Note 7)		
Shareholders’ equity:		
Preferred stock, no par value, authorized 10,000 shares, issued and outstanding, 0 shares and 0 shares	—	—
Common stock, no par value, authorized 160,000,000 shares, issued and outstanding, 26,978,229 shares and 26,888,288 shares	511	511
Additional paid-in capital	340,723	339,009
Retained earnings	384,947	371,982
Accumulated other comprehensive loss	(19,722)	(7,122)
Total shareholders' equity	706,459	704,380
Total liabilities and shareholders' equity	$7,163,877	$6,742,041

See accompanying notes to interim consolidated financial statements (unaudited).

HOMESTREET, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(in thousands, except share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest income:				
Loans	$61,409	$ 51,198	$117,345	$ 100,704
Investment securities	5,527	5,419	11,086	11,051
Other	253	125	432	261
	67,189	56,742	128,863	112,016
Interest expense:				
Deposits	9,562	5,867	17,350	11,490
Federal Home Loan Bank advances	4,782	2,368	8,418	4,769
Federal funds purchased and securities sold under agreements to repurchase	24	5	56	5
Long-term debt	1,662	1,514	3,246	2,993
Other	156	120	330	240
	16,186	9,874	29,400	19,497
Net interest income	51,003	46,868	99,463	92,519
Provision for credit losses	1,000	500	1,750	500
Net interest income after provision for credit losses	50,003	46,368	97,713	92,019
Noninterest income:				
Net gain on loan origination and sale activities	57,049	65,908	105,368	126,189
Loan servicing income	7,032	8,764	14,606	18,003
Income from WMS Series LLC	322	406	311	591
Depositor and other retail banking fees	1,953	1,811	3,898	3,467
Insurance agency commissions	527	501	1,070	897
Gain on sale of investment securities available for sale	16	551	238	557
Other	2,490	3,067	4,729	5,765
	69,389	81,008	130,220	155,469
Noninterest expense:				
Salaries and related costs	69,127	76,390	135,818	147,698
General and administrative	14,707	15,872	29,291	33,000
Amortization of core deposit intangibles	407	493	813	1,007
Legal	839	150	1,569	310
Consulting	758	771	1,635	1,829
Federal Deposit Insurance Corporation assessments	1,079	697	2,008	1,521
Occupancy	14,953	8,880	23,133	17,089
Information services	8,693	8,172	17,158	15,820
Net cost (benefit) from operation and sale of other real estate owned	2	(181)	(91)	(156)
	110,565	111,244	211,334	218,118
Income before income taxes	8,827	16,132	16,599	29,370
Income tax expense	1,728	4,923	3,634	9,178
NET INCOME	$7,099	$ 11,209	$12,965	$20,192
Basic income per share	$0.26	$ 0.42	$0.48	$0.75
Diluted income per share	$0.26	$ 0.41	$0.48	$0.75
Basic weighted average number of shares outstanding	26,976,892	26,866,230	26,952,178	26,843,813
Diluted weighted average number of shares outstanding	27,156,329	27,084,608	27,157,664	27,071,028

See accompanying notes to interim consolidated financial statements (unaudited).

HOMESTREET, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$7,099	$11,209	$12,965	$20,192
Other comprehensive (loss) income, net of tax:				
Unrealized gain (loss) on investment securities available for sale:				
Unrealized holding (loss) gain arising during the period, net of tax (benefit) expense of ($642) and $1,848 for the three months ended June 30, 2018 and 2017, and ($3,300) and $2,887 for the six months ended June 30, 2018 and 2017, respectively	(2,412)	3,431	(12,412)	5,361
Reclassification adjustment for net gains included in net income, net of tax expense of $4 and $193 for the three months ended June 30, 2018 and 2017, and $50 and $195 for the six months ended June 30, 2018 and 2017, respectively	(12)	(358)	(188)	(362)
Other comprehensive (loss) income	(2,424)	3,073	(12,600)	4,999
Comprehensive income	$4,675	$14,282	$365	$25,191

See accompanying notes to interim consolidated financial statements (unaudited).

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HOMESTREET, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

(in thousands, except share data)	Number of shares	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2017	26,800,183	$ 511	$336,149	$303,036	$ (10,412)	$629,284
Net income	—	—	—	20,192	—	20,192
Share-based compensation expense	—	—	1,211	—	—	1,211
Common stock issued	74,688	—	155	—	—	155
Other comprehensive income	—	—	—	—	4,999	4,999
Balance, June 30, 2017	26,874,871	$ 511	$337,515	$323,228	$ (5,413)	$655,841
Balance, January 1, 2018	26,888,288	$ 511	$339,009	$371,982	$ (7,122)	$704,380
Net income	—	—	—	12,965	—	12,965
Share-based compensation expense	—	—	1,460	—	—	1,460
Common stock issued	89,941	—	254	—	—	254
Other comprehensive loss	—	—	—	—	(12,600)	(12,600)
Balance, June 30, 2018	26,978,229	$ 511	$340,723	$384,947	$ (19,722)	$706,459

See accompanying notes to interim consolidated financial statements (unaudited).

HOMESTREET, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in thousands)	Six Months Ended June 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 12,965	$ 20,192
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion	12,104	10,911
Provision for credit losses	1,750	500
Net fair value adjustment and gain on sale of loans held for sale	(44,297)	(113,742)
Fair value adjustment of loans held for investment	31	(1,203)
Origination of mortgage servicing rights	(33,369)	(35,211)
Change in fair value of mortgage servicing rights	(24,878)	21,722
Net gain on sale of investment securities	(238)	(557)
Net loss (gain) on sale of loans originated as held for investment	628	(297)
Net fair value adjustment, gain on sale and provision for losses on other real estate owned	(92)	(356)
Loss on disposal of fixed assets	302	106
Loss on lease abandonment	5,802	502
Net deferred income tax (benefit) expense	(46)	7,510
Share-based compensation expense	1,702	1,362
Origination of loans held for sale	(3,248,078)	(3,665,396)
Proceeds from sale of loans originated as held for sale	3,345,695	3,769,126
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable and other assets	3,437	(7,198)
Increase (decrease) in accounts payable and other liabilities	2,347	(17,371)
Net cash provided by (used in) operating activities	35,765	(9,400)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(97,842)	(246,435)
Proceeds from sale of investment securities	22,232	314,633
Principal repayments and maturities of investment securities	52,857	50,043
Proceeds from sale of other real estate owned	459	2,170
Proceeds from sale of loans originated as held for investment	230,527	23,780
Proceeds from sale of mortgage servicing rights	65,263	—
Mortgage servicing rights purchased from others	—	(565)
Capital expenditures related to other real estate owned	—	(57)
Origination of loans held for investment and principal repayments, net	(617,670)	(420,530)
Purchase of property and equipment	(5,926)	(28,789)
Net cash used in investing activities	(350,100)	(305,750)

(in thousands)	Six Months Ended June 30, 2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits, net	$359,251	$318,132
Proceeds from Federal Home Loan Bank advances	5,637,500	4,497,700
Repayment of Federal Home Loan Bank advances	(5,608,000)	(4,498,700)
Proceeds from federal funds purchased and securities sold under agreements to repurchase	796,000	326,618
Repayment of federal funds purchased and securities sold under agreements to repurchase	(796,000)	(326,618)
Proceeds from line of credit draws	30,000	—
Proceeds from Federal Home Loan Bank stock	98,621	91,939
Purchase of Federal Home Loan Bank stock	(100,139)	(93,362)
Proceeds from stock issuance, net	11	11
Payments from equity raise	—	(46)
Net cash provided by financing activities	417,244	315,674
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	102,909	524
Cash, cash equivalents and restricted cash, beginning of year	73,909	56,364
Cash, cash equivalents and restricted cash, end of period	176,818	56,888
Less restricted cash included in other assets	(600)	(2,441)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$176,218	$54,447
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest paid	$28,825	$19,757
Federal and state income taxes refunded, net	(112)	(23,382)
Non-cash activities:		
Loans held for investment foreclosed and transferred to other real estate owned	455	1,125
Loans transferred from held for investment to held for sale	252,567	113,278
Loans transferred from held for sale to held for investment	10,480	29,809
Ginnie Mae loans recognized with the right to repurchase (reduction in), net	1,992	(2,358)
Receivable from sale of mortgage servicing rights	3,457	—

See accompanying notes to interim consolidated financial statements (unaudited).

HomeStreet, Inc. and Subsidiaries
Notes to Interim Consolidated Financial Statements (Unaudited)

NOTE 1–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

HomeStreet, Inc. and its wholly owned subsidiaries (the "Company") is a diversified financial services company serving customers primarily on the West Coast of the United States, including Hawaii. The Company is principally engaged in commercial banking, mortgage banking, and consumer/retail banking activities. The Company's consolidated financial statements include the accounts of HomeStreet, Inc. and its wholly owned subsidiaries, HomeStreet Capital Corporation, HomeStreet Statutory Trusts and HomeStreet Bank (the "Bank"), and the Bank’s subsidiaries, HomeStreet/WMS, Inc., HomeStreet Reinsurance, Ltd., Continental Escrow Company, HomeStreet Foundation, HS Properties, Inc., HS Evergreen Corporate Center LLC, Union Street Holdings LLC, HS Cascadia Holdings LLC and YNB Real Estate LLC. HomeStreet Bank was formed in 1986 and is a state-chartered commercial bank.

The Company’s accounting and financial reporting policies conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"). Inter-company balances and transactions have been eliminated in consolidation. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and revenues and expenses during the reporting periods and related disclosures. Some of these estimates require application of management's most difficult, subjective or complex judgments and result in amounts that are inherently uncertain and may change in future periods. Management has made significant estimates in several areas, including the fair value of assets acquired and liabilities assumed in business combinations, allowance for credit losses (Note 3, *Loans and Credit Quality*), valuation of residential mortgage servicing rights and loans held for sale (Note 6, *Mortgage Banking Operations*), valuation of certain loans held for investment (Note 3, *Loans and Credit Quality*), valuation of investment securities (Note 2, *Investment Securities*), and valuation of derivatives (Note 5, *Derivatives and Hedging Activities*). We have reclassified certain prior period amounts to conform to the current period presentation. These reclassifications are immaterial and have no effect on net income, comprehensive income, cash flows, total assets or total shareholder's equity as previously reported.

These unaudited interim financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results of the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q. The results of operations in the interim financial statements do not necessarily indicate the results that may be expected for the full year. The interim financial information should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission ("2017 Annual Report on Form 10-K").

Recent Accounting Developments

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No.2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from *Accumulated Other Comprehensive Income,* or ASU 2018-02. The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act ("Tax Act"). The update does not have any impact on the underlying ASC 740 guidance that requires the effect of a change in tax law be included in income from continuing operations. The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted and should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. The Company is currently evaluating the provisions of this guidance to determine the potential impact the new standard will have on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,* or ASU 2017-12. This standard better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedge instruments and the hedged item in the financial statements. Adoption for this ASU is required for fiscal years and interim periods beginning after December 15, 2018 and early adoption is permitted. The Company is currently evaluating the provisions of this guidance to determine the potential impact the new standard will have on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables - Nonrefundable Fees and other Costs (Subtopic 320-20): Premium Amortization on Purchased Callable Debt Securities,* or ASU 2017-08. This standard shortens the amortization period for the premium to the earliest call date to more closely align interest income recorded on bonds held at a premium or a discount with the economics of the underlying instrument. Adoption of ASU 2017-08 is required for fiscal years and interim periods within those fiscal years, beginning after December, 15, 2018, early adoption is permitted. The Company is currently evaluating the provisions of this guidance to determine the potential impact the new standard will have on the Company's consolidated financial statements.
In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,* or ASU 2017-04, which eliminates Step 2 from the goodwill impairment test. ASU 2017-04 also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Adoption of ASU 2017-04 is required for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019 with early adoption being permitted for annual or interim goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.
In June 2016, FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. Current U.S. GAAP requires an “incurred loss” methodology for recognizing credit losses that delay recognition until it is probable a loss has been incurred. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendment affects loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial asset not excluded from the scope that has the contractual right to receive cash. The amendments in this ASU replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this ASU require a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The measurement of expected credit losses will be based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The amendments in this ASU broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit loss, which will be more decision useful to users of the financial statements. The amendments in this ASU will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is still evaluating the effects this ASU will have on the Company’s consolidated financial statements. The Company has formed an internal committee to oversee the project. Upon adoption, the Company expects a change in the processes and procedures to calculate the allowance for loan losses, including changes in assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. The new guidance may result in an increase in the allowance for loan losses; however, management is still assessing the magnitude of the increase and its impact on the Company's consolidated financial statements. In addition, the current accounting policy and procedures for other-than-temporary impairment on investment securities available for sale will be replaced with an allowance approach. The Company has begun developing and implementing processes to address the amendments of this ASU.
On February 25, 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The amendments in this ASU require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. This ASU simplifies the accounting for sale and leaseback transactions. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application was permitted upon issuance of the ASU. Lessees (for capital and operating leases) and lessors (for

sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. Management is currently evaluating the provisions of this guidance to determine the potential impact the new standard will have on the Company's consolidated financial statements. While we have not quantified the impact to our balance sheet, upon the adoption of this ASU we expect to report increased assets and liabilities on our consolidated statement of financial condition as a result of recognizing right-of-use assets and lease liabilities related to these leases and certain equipment under non-cancelable operating lease agreements, which currently are not on our consolidated statement of financial condition.

NOTE 2–INVESTMENT SECURITIES:

The following table sets forth certain information regarding the amortized cost and fair values of our investment securities available for sale and held to maturity.

(in thousands)	At June 30, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
AVAILABLE FOR SALE				
Mortgage-backed securities:				
Residential	$121,537	$ 2	$(5,691)	$115,848
Commercial	31,216	—	(862)	30,354
Municipal bonds	370,688	951	(9,840)	361,799
Collateralized mortgage obligations:				
Residential	175,563	6	(7,050)	168,519
Commercial	113,926	27	(2,330)	111,623
Corporate debt securities	22,606	2	(1,129)	21,479
U.S. Treasury securities	10,907	—	(469)	10,438
Agency debentures	9,868	—	(506)	9,362
	$856,311	$ 988	$(27,877)	$829,422
HELD TO MATURITY				
Mortgage-backed securities:				
Residential	$11,430	$ —	$(301)	$11,129
Commercial	21,773	—	(649)	21,124
Collateralized mortgage obligations	17,341	45	(72)	17,314
Municipal bonds	27,396	169	(445)	27,120
Corporate debt securities	95	—	—	95
	$78,035	$ 214	$(1,467)	$76,782

(in thousands)	At December 31, 2017 Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
AVAILABLE FOR SALE				
Mortgage-backed securities:				
Residential	$133,654	$ 4	$(3,568)	$130,090
Commercial	24,024	8	(338)	23,694
Municipal bonds	389,117	2,978	(3,643)	388,452
Collateralized mortgage obligations:				
Residential	164,502	3	(4,081)	160,424
Commercial	100,001	9	(1,441)	98,569
Corporate debt securities	25,146	67	(476)	24,737
U.S. Treasury securities	10,899	—	(247)	10,652
Agency debentures	9,861	—	(211)	9,650
	$857,204	$ 3,069	$(14,005)	$846,268
HELD TO MATURITY				
Mortgage-backed securities:				
Residential	$12,062	$ 35	$(99)	$11,998
Commercial	21,015	75	(161)	20,929
Collateralized mortgage obligations	3,439	—	—	3,439
Municipal bonds	21,423	339	(97)	21,665
Corporate debt securities	97	—	—	97
	$58,036	$ 449	$(357)	$58,128

Mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMO") represent securities issued by government sponsored enterprises ("GSEs"). Each of the MBS and CMO securities in our investment portfolio are guaranteed by Federal National Mortgage Association ("Fannie Mae"), Government National Mortgage Association ("Ginnie Mae") or Federal Home Loan Mortgage Corporation ("Freddie Mac"). Municipal bonds are comprised of general obligation bonds (i.e., backed by the general credit of the issuer) and revenue bonds (i.e., backed by revenues from the specific project being financed) issued by various municipal corporations. As of June 30, 2018 and December 31, 2017, all securities held, including municipal bonds and corporate debt securities, were rated investment grade, based upon external ratings where available and, where not available, based upon internal ratings which correspond to ratings as defined by Standard and Poor’s Rating Services (“S&P”) or Moody’s Investors Services (“Moody’s”). As of June 30, 2018 and December 31, 2017, substantially all securities held had ratings available by external ratings agencies.

Investment securities available for sale and held to maturity that were in an unrealized loss position are presented in the following tables based on the length of time the individual securities have been in an unrealized loss position.

(in thousands)	At June 30, 2018					
	Less than 12 months		12 months or more		Total	
	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
AVAILABLE FOR SALE						
Mortgage-backed securities:						
Residential	$(343)	$13,874	$(5,348)	$101,421	$(5,691)	$115,295
Commercial	(509)	23,846	(353)	6,508	(862)	30,354
Municipal bonds	(4,038)	176,321	(5,802)	125,662	(9,840)	301,983
Collateralized mortgage obligations:						
Residential	(1,529)	63,185	(5,521)	101,000	(7,050)	164,185
Commercial	(940)	43,156	(1,390)	43,017	(2,330)	86,173
Corporate debt securities	(176)	8,683	(953)	12,566	(1,129)	21,249
U.S. Treasury securities	(2)	998	(467)	9,440	(469)	10,438
Agency debentures	(506)	9,363	—	—	(506)	9,363
	$(8,043)	$339,426	$(19,834)	$399,614	$(27,877)	$739,040
HELD TO MATURITY						
Mortgage-backed securities:						
Residential	$(96)	$4,686	$(205)	$4,131	$(301)	$8,817
Commercial	(649)	21,124	—	—	(649)	21,124
Collateralized mortgage obligations	(72)	13,850	—	—	(72)	13,850
Municipal bonds	(171)	10,506	(274)	9,168	(445)	19,674
	$(988)	$50,166	$(479)	$13,299	$(1,467)	$63,465

(in thousands)	At December 31, 2017 Less than 12 months Gross unrealized losses	 Fair value	 12 months or more Gross unrealized losses	 Fair value	 Total Gross unrealized losses	 Fair value
AVAILABLE FOR SALE						
Mortgage-backed securities:						
Residential	$(182)	$18,020	$(3,386)	$110,878	$(3,568)	$128,898
Commercial	(113)	15,265	(225)	6,748	(338)	22,013
Municipal bonds	(760)	105,415	(2,883)	134,103	(3,643)	239,518
Collateralized mortgage obligations:						
Residential	(612)	53,721	(3,469)	104,555	(4,081)	158,276
Commercial	(538)	57,236	(903)	35,225	(1,441)	92,461
Corporate debt securities	(15)	5,272	(461)	13,365	(476)	18,637
U.S. Treasury securities	(3)	997	(244)	9,655	(247)	10,652
Agency debentures	(211)	9,650	$—	—	(211)	9,650
	$(2,434)	$265,576	$(11,571)	$414,529	$(14,005)	$680,105
HELD TO MATURITY						
Mortgage-backed securities:						
Residential	$(13)	$2,662	$(86)	$4,452	$(99)	$7,114
Commercial	(161)	15,900	—	—	(161)	15,900
Collateralized mortgage obligations	—	3,439	—	—	—	3,439
Municipal bonds	(3)	2,185	(94)	9,465	(97)	11,650
	$(177)	$24,186	$(180)	$13,917	$(357)	$38,103

The Company has evaluated securities available for sale that are in an unrealized loss position and has determined that the decline in value is temporary and is related to the change in market interest rates since purchase. The decline in value is not related to any issuer- or industry-specific credit event. The Company has not identified any expected credit losses on its debt securities as of June 30, 2018 and December 31, 2017. In addition, as of June 30, 2018 and December 31, 2017, the Company had not made a decision to sell any of its debt securities held, nor did the Company consider it more likely than not that it would be required to sell such securities before recovery of their amortized cost basis.

The following tables present the fair value of investment securities available for sale and held to maturity by contractual maturity along with the associated contractual yield for the periods indicated below. Contractual maturities for mortgage-backed securities and collateralized mortgage obligations as presented exclude the effect of expected prepayments. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations before the underlying mortgages mature. The weighted-average yield is computed using the contractual coupon of each security weighted based on the fair value of each security and does not include adjustments to a tax equivalent basis.

	At June 30, 2018									
	Within one year		After one year through five years		After five years through ten years		After ten years		Total	
(dollars in thousands)	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
AVAILABLE FOR SALE										
Mortgage-backed securities:										
Residential	$—	— %	$—	— %	$8,022	1.62 %	$107,826	2.04 %	$115,848	2.02 %
Commercial	—	—	13,412	2.10	13,337	2.66	3,605	2.87	30,354	2.44
Municipal bonds	1,263	2.20	15,989	2.28	32,279	2.71	312,268	3.23	361,799	3.14
Collateralized mortgage obligations:										
Residential	—	—	—	—	—	—	168,519	2.28	168,519	2.28
Commercial	—	—	10,149	2.27	25,398	2.76	76,076	2.25	111,623	2.37
Agency debentures	—	—	—	—	9,362	2.19	—	—	9,362	2.19
Corporate debt securities	1,018	2.10	4,153	3.01	11,557	3.33	4,751	3.50	21,479	3.25
U.S. Treasury securities	998	1.22	—	—	9,440	1.72	—	—	10,438	1.68
Total available for sale	$3,279	1.87 %	$43,703	2.29 %	$109,395	2.57 %	$673,045	2.69 %	$829,422	2.65 %
HELD TO MATURITY										
Mortgage-backed securities:										
Residential	$—	— %	$—	— %	$—	— %	$11,129	2.87 %	$11,129	2.87 %
Commercial	—	—	14,469	2.41	6,655	2.58	—	—	21,124	2.46
Collateralized mortgage obligations	—	—	8,893	3.46	—	—	8,421	2.73	17,314	3.11
Municipal bonds	—	—	1,807	2.85	4,474	2.16	20,839	3.20	27,120	3.00
Corporate debt securities	—	—	—	—	—	—	95	6.00	95	6.00
Total held to maturity	$—	— %	$25,169	2.81 %	$11,129	2.41 %	$40,484	3.02 %	$76,782	2.86 %

	At December 31, 2017									
	Within one year		After one year through five years		After five years through ten years		After ten years		Total	
(dollars in thousands)	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
AVAILABLE FOR SALE										
Mortgage-backed securities:										
Residential	$—	— %	$—	— %	$8,914	1.63 %	$121,176	1.97 %	$130,090	1.94 %
Commercial	—	—	15,356	2.07	4,558	2.03	3,780	2.98	23,694	2.21
Municipal bonds	641	2.64	24,456	3.10	39,883	3.25	323,472	3.81	388,452	3.71
Collateralized mortgage obligations:										
Residential	—	—	—	—	—	—	160,424	2.10	160,424	2.10
Commercial	—	—	12,550	2.09	21,837	2.38	64,182	2.13	98,569	2.18
Agency debentures	—	—	—	—	9,650	2.26	—	—	9,650	2.26
Corporate debt securities	1,048	2.11	6,527	2.80	11,033	3.49	6,129	3.57	24,737	3.27
U.S. Treasury securities	997	1.22	—	—	9,655	1.76	—	—	10,652	1.71
Total available for sale	$2,686	1.90 %	$58,889	2.58 %	$105,530	2.67 %	$679,163	2.90 %	$846,268	2.85 %
HELD TO MATURITY										
Mortgage-backed securities:										
Residential	$—	— %	$—	— %	$—	— %	$11,998	2.93 %	$11,998	2.93 %
Commercial	—	—	6,577	2.15	14,352	2.71	—	—	20,929	2.53
Collateralized mortgage obligations	—	—	—	—	—	—	3,439	1.90	3,439	1.90
Municipal bonds	—	—	1,846	3.35	4,630	2.57	15,189	3.50	21,665	3.28
Corporate debt securities	—	—	—	—	—	—	97	6.00	97	6.00
Total held to maturity	$—	— %	$8,423	2.41 %	$18,982	2.68 %	$30,723	3.10 %	$58,128	2.86 %

Sales of investment securities available for sale were as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2018	2017	2018	2017
Proceeds	$5,357	$312,247	$22,232	$314,633
Gross gains	38	551	261	576
Gross losses	(22)	—	(23)	(19)

The following table summarizes the carrying value of securities pledged as collateral to secure borrowings, public deposits and other purposes as permitted or required by law:

(in thousands)	At June 30, 2018	At December 31, 2017
Federal Home Loan Bank to secure borrowings	$85,339	$ 425,866
Washington and California State to secure public deposits	134,420	118,828
Securities pledged to secure derivatives in a liability position	10,615	7,308
Other securities pledged	5,403	6,089
Total securities pledged as collateral	$235,777	$ 558,091

The Company assesses the creditworthiness of the counterparties that hold the pledged collateral and has determined that these arrangements have little risk. There were no securities pledged under repurchase agreements at June 30, 2018 and December 31, 2017.

Tax-exempt interest income on securities totaled $2.2 million and $2.4 million for the three months ended June 30, 2018 and 2017, respectively, and $4.5 million and $4.9 million for the six months ended June 30, 2018 and 2017, respectively,
was recorded in the Company's consolidated statements of operations.

NOTE 3–LOANS AND CREDIT QUALITY:

For a detailed discussion of loans and credit quality, including accounting policies and the methodology used to estimate the allowance for credit losses, see Note 1, *Summary of Significant Accounting Policies,* and Note 5*, Loans and Credit Quality,* within our 2017 Annual Report on Form 10-K.

The Company's portfolio of loans held for investment is divided into two portfolio segments, consumer loans and commercial loans, which are the same segments used to determine the allowance for loan losses. Within each portfolio segment, the Company monitors and assesses credit risk based on the risk characteristics of each of the following loan classes: single family and home equity and other loans within the consumer loan portfolio segment and non-owner occupied commercial real estate, multifamily, construction/land development and owner occupied commercial real estate and commercial business loans within the commercial loan portfolio segment.

Loans held for investment consist of the following:

(in thousands)	At June 30, 2018	At December 31, 2017
Consumer loans		
Single family[(1)]	$1,416,072	$1,381,366
Home equity and other	513,016	453,489
Total consumer loans	1,929,088	1,834,855
Commercial real estate loans		
Non-owner occupied commercial real estate	640,984	622,782
Multifamily	836,260	728,037
Construction/land development	778,094	687,631
Total commercial real estate loans	2,255,338	2,038,450
Commercial and industrial loans		
Owner occupied commercial real estate	400,149	391,613
Commercial business	319,038	264,709
Total commercial and industrial loans	719,187	656,322
Loans held for investment before deferred fees, costs and allowance	4,903,613	4,529,627
Net deferred loan fees and costs	19,177	14,686
	4,922,790	4,544,313
Allowance for loan losses	(39,480)	(37,847)
Total loans held for investment	$4,883,310	$4,506,466

(1) Includes $4.2 million and $5.5 million at June 30, 2018 and December 31, 2017, respectively, of loans where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

Loans in the amount of $2.01 billion and $1.81 billion at June 30, 2018 and December 31, 2017, respectively, were pledged to secure borrowings from the Federal Home Loan Bank ("FHLB") as part of our liquidity management strategy. Additionally, loans totaling $556.3 million and $663.8 million at June 30, 2018 and December 31, 2017, respectively, were pledged to secure borrowings from the Federal Reserve Bank. The FHLB and Federal Reserve Bank do not have the right to sell or re-pledge these loans.

Credit Risk Concentrations

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

Loans held for investment are primarily secured by real estate located in the Pacific Northwest, California and Hawaii. At June 30, 2018, we had concentrations representing 10% or more of the total portfolio by state and property type for the single family loan class within the states of Washington and California, which represented 13.9% and 10.6% of the total portfolio, respectively. At December 31, 2017, we had concentrations representing 10% or more of the total portfolio by state and property type for the single family loan class within the states of Washington and California, which represented 15.0% and 10.9% of the total portfolio, respectively.

Credit Quality

Management considers the level of allowance for loan losses to be appropriate to cover credit losses inherent within the loans held for investment portfolio as of June 30, 2018. In addition to the allowance for loan losses, the Company

maintains a separate allowance for losses related to unfunded loan commitments, and this amount is included in accounts payable and other liabilities on our consolidated statements of financial condition. Collectively, these allowances are referred to as the allowance for credit losses. The allowance for unfunded commitments was $1.5 million at June 30, 2018, compared to $1.3 million at June 30, 2017.

For further information on the policies that govern the determination of the allowance for loan losses levels, see Note 1, *Summary of Significant Accounting Policies,* within our 2017 Annual Report on Form 10-K.

Activity in the allowance for credit losses was as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2018	2017	2018	2017
Allowance for credit losses (roll-forward):				
Beginning balance	$40,446	$36,042	$39,116	$35,264
Provision for credit losses	1,000	500	1,750	500
(Charge-offs) recoveries, net	(464)	928	116	1,706
Ending balance	$40,982	$37,470	$40,982	$37,470

Activity in the allowance for credit losses by loan portfolio and loan class was as follows.

	Three Months Ended June 30, 2018				
(in thousands)	Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$9,208	$ —	$ 2	$ (616)	$8,594
Home equity and other	6,987	(145)	147	357	7,346
Total consumer loans	16,195	(145)	149	(259)	15,940
Commercial real estate loans					
Non-owner occupied commercial real estate	4,627	—	—	137	4,764
Multifamily	4,651	—	—	366	5,017
Construction/land development	9,159	—	172	(126)	9,205
Total commercial real estate loans	18,437	—	172	377	18,986
Commercial and industrial loans					
Owner occupied commercial real estate	2,966	—	—	66	3,032
Commercial business	2,848	(652)	12	816	3,024
Total commercial and industrial loans	5,814	(652)	12	882	6,056
Total allowance for credit losses	$40,446	$ (797)	$ 333	$ 1,000	$40,982

	Three Months Ended June 30, 2017				
(in thousands)	Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$7,954	$ (2)	$ 683	$ (347)	$8,288
Home equity and other	6,546	(186)	67	429	6,856
Total consumer loans	14,500	(188)	750	82	15,144
Commercial real estate loans					
Non-owner occupied commercial real estate	4,699	—	—	217	4,916
Multifamily	3,793	—	—	266	4,059
Construction/land development	8,069	—	214	(57)	8,226
Total commercial real estate loans	16,561	—	214	426	17,201
Commercial and industrial loans					
Owner occupied commercial real estate	2,337	—	—	202	2,539
Commercial business	2,644	(16)	168	(210)	2,586
Total commercial and industrial loans	4,981	(16)	168	(8)	5,125
Total allowance for credit losses	$36,042	$ (204)	$ 1,132	$ 500	$37,470

(in thousands)	Six Months Ended June 30, 2018 Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$9,412	$ —	$ 282	$(1,100)	$8,594
Home equity and other	7,081	(242)	223	284	7,346
	16,493	(242)	505	(816)	15,940
Commercial real estate loans					
Non-owner occupied commercial real estate	4,755	—	—	9	4,764
Multifamily	3,895	—	—	1,122	5,017
Construction/land development	8,677	—	343	185	9,205
Total commercial real estate loans	17,327	—	343	1,316	18,986
Commercial and industrial loans					
Owner occupied commercial real estate	2,960	—	—	72	3,032
Commercial business	2,336	(653)	163	1,178	3,024
Total commercial and industrial loans	5,296	(653)	163	1,250	6,056
Total allowance for credit losses	$39,116	$ (895)	$ 1,011	$1,750	$40,982

(in thousands)	Six Months Ended June 30, 2017 Beginning balance	Charge-offs	Recoveries	(Reversal of) Provision	Ending balance
Consumer loans					
Single family	$8,196	$ (2)	$ 1,016	$ (922)	$8,288
Home equity and other	6,153	(511)	353	861	6,856
	14,349	(513)	1,369	(61)	15,144
Commercial real estate loans					
Non-owner occupied commercial real estate	4,481	—	—	435	4,916
Multifamily	3,086	—	—	973	4,059
Construction/land development	8,553	—	434	(761)	8,226
Total commercial real estate loans	16,120	—	434	647	17,201
Commercial and industrial loans					
Owner occupied commercial real estate	2,199	—	—	340	2,539
Commercial business	2,596	(16)	432	(426)	2,586
	4,795	(16)	432	(86)	5,125
Total allowance for credit losses	$35,264	$ (529)	$ 2,235	$ 500	$37,470

The following tables disaggregate our allowance for credit losses and recorded investment in loans by impairment methodology.

(in thousands)	At June 30, 2018 Allowance: collectively evaluated for impairment	Allowance: individually evaluated for impairment	Total	Loans: collectively evaluated for impairment	Loans: individually evaluated for impairment	Total	
Consumer loans							
Single family	$8,478	$ 116	$8,594	$1,344,362	$ 67,548	$1,411,910	
Home equity and other	7,302	44	7,346	511,740	1,260	513,000	
Total consumer loans	15,780	160	15,940	1,856,102	68,808	1,924,910	
Commercial loans							
Non-owner occupied commercial real estate	4,764	—	4,764	640,984	—	640,984	
Multifamily	5,017	—	5,017	835,476	784	836,260	
Construction/land development	9,205	—	9,205	777,428	666	778,094	
Total commercial real estate loans	18,986	—	18,986	2,253,888	1,450	2,255,338	
Commercial and industrial loans							
Owner occupied commercial real estate	3,032	—	3,032	398,889	1,260	400,149	
Commercial business	2,902	122	3,024	317,012	2,026	319,038	
Total commercial and industrial loans	5,934	122	6,056	715,901	3,286	719,187	
Total loans evaluated for impairment	40,700	282	40,982	4,825,891	73,544	4,899,435	
Loans held for investment carried at fair value	—	—	—	—	—	4,187	(1)
Total loans held for investment	$40,700	$ 282	$40,982	$4,825,891	$ 73,544	$4,903,622	

(in thousands)	At December 31, 2017 Allowance: collectively evaluated for impairment	Allowance: individually evaluated for impairment	Total	Loans: collectively evaluated for impairment	Loans: individually evaluated for impairment	Total	
Consumer loans							
Single family	$9,188	$ 224	$9,412	$1,300,939	$ 74,967	$1,375,906	
Home equity and other	7,036	45	7,081	452,182	1,290	453,472	
Total consumer loans	16,224	269	16,493	1,753,121	76,257	1,829,378	
Commercial real estate loans							
Non-owner occupied commercial real estate	4,755	—	4,755	622,782	—	622,782	
Multifamily	3,895	—	3,895	727,228	809	728,037	
Construction/land development	8,677	—	8,677	687,177	454	687,631	
Total commercial real estate loans	17,327	—	17,327	2,037,187	1,263	2,038,450	
Commercial and industrial loans							
Owner occupied commercial real estate	2,960	—	2,960	388,624	2,989	391,613	
Commercial business	2,316	20	2,336	261,603	3,106	264,709	
Total commercial and industrial loans	5,276	20	5,296	650,227	6,095	656,322	
Total loans evaluated for impairment	38,827	289	39,116	4,440,535	83,615	4,524,150	
Loans held for investment carried at fair value	—	—	—	5,246	231	5,477	(1)
Total loans held for investment	$38,827	$ 289	$39,116	$4,445,781	$ 83,846	$4,529,627	

(1) Comprised of single family loans where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

Impaired Loans

The following tables present impaired loans by loan portfolio segment and loan class.

(in thousands)	At June 30, 2018		
	Recorded investment (1)	Unpaid principal balance (2)	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	$65,585	$66,378	$ —
Home equity and other	759	784	—
Total consumer loans	66,344	67,162	—
Commercial real estate loans			
Multifamily	784	822	—
Construction/land development	666	666	—
Total commercial real estate loans	1,450	1,488	—
Commercial and industrial loans			
Owner occupied commercial real estate	1,260	1,569	—
Commercial business	1,589	2,262	—
Total commercial and industrial loans	2,849	3,831	—
	$70,643	$72,481	$ —
With an allowance recorded:			
Consumer loans			
Single family	$1,963	$2,021	$ 116
Home equity and other	501	500	44
Total consumer loans	2,464	2,521	160
Commercial and industrial loans			
Commercial business	437	857	122
Total commercial and industrial loans	437	857	122
	$2,901	$3,378	$ 282
Total:			
Consumer loans			
Single family (3)	$67,548	$68,399	$ 116
Home equity and other	1,260	1,284	44
Total consumer loans	68,808	69,683	160
Commercial real estate loans			
Multifamily	784	822	—
Construction/land development	666	666	—
Total commercial and industrial loans	1,450	1,488	—
Commercial and industrial loans			
Owner occupied commercial real estate	1,260	1,569	—
Commercial business	2,026	3,119	122
Total commercial and industrial loans	3,286	4,688	122
Total impaired loans	$73,544	$75,859	$ 282

(1) Includes partial charge-offs and nonaccrual interest paid and purchase discounts and premiums.

(2) Unpaid principal balance does not include partial charge-offs, purchase discounts and premiums or nonaccrual interest paid. Related allowance is calculated on net book balances not unpaid principal balances.

(3) Includes $65.5 million in single family performing trouble debt restructurings ("TDRs").

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(in thousands)	At December 31, 2017 Recorded investment [1]	Unpaid principal balance [2]	Related allowance
With no related allowance recorded:			
Consumer loans			
Single family	$71,264 [4]	$72,424	$ —
Home equity and other	782	807	—
Total consumer loans	72,046	73,231	—
Commercial real estate loans			
Multifamily	809	837	—
Construction/land development	454	454	—
Total commercial real estate loans	1,263	1,291	—
Commercial and industrial loans			
Owner occupied commercial real estate	2,989	3,288	—
Commercial business	2,398	3,094	—
Total commercial and industrial loans	5,387	6,382	—
	$78,696	$80,904	$ —
With an allowance recorded:			
Consumer loans			
Single family	$3,934	$4,025	$ 224
Home equity and other	508	508	45
Total consumer loans	4,442	4,533	269
Commercial and industrial loans			
Commercial business	708	755	20
Total commercial and industrial loans	708	755	20
	$5,150	$5,288	$ 289
Total:			
Consumer loans			
Single family [3]	$75,198	$76,449	$ 224
Home equity and other	1,290	1,315	45
Total consumer loans	76,488	77,764	269
Commercial real estate loans			
Multifamily	809	837	—
Construction/land development	454	454	—
Total commercial real estate loans	1,263	1,291	—
Commercial and industrial loans			
Owner occupied commercial real estate	2,989	3,288	—
Commercial business	3,106	3,849	20
Total commercial and industrial loans	6,095	7,137	20
Total impaired loans	$83,846	$86,192	$ 289

(1) Includes partial charge-offs and nonaccrual interest paid and purchase discounts and premiums.

(2) Unpaid principal balance does not include partial charge-offs, purchase discounts and premiums or nonaccrual interest paid. Related allowance is calculated on net book balances not unpaid principal balances.

(3) Includes $69.6 million in single family performing TDRs.

(4) Includes $231 thousand of fair value option loans.

The following tables provide the average recorded investment and interest income recognized on impaired loans by portfolio segment and class.

(in thousands)	Three Months Ended June 30, 2018		Three Months Ended June 30, 2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Consumer loans				
Single family	$68,188	$ 657	$83,653	$ 790
Home equity and other	1,263	19	1,568	24
Total consumer loans	69,451	676	85,221	814
Commercial real estate loans				
Non-owner occupied commercial real estate	—	—	1,161	—
Multifamily	792	6	832	6
Construction/land development	628	6	1,105	21
Total commercial real estate loans	1,420	12	3,098	27
Commercial and industrial loans				
Owner occupied commercial real estate	2,057	19	3,280	37
Commercial business	2,405	29	2,380	36
Total commercial and industrial loans	4,462	48	5,660	73
	$75,333	$ 736	$93,979	$ 914

(in thousands)	Six Months Ended June 30, 2018		Six Months Ended June 30, 2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Consumer loans				
Single family	$70,525	$ 1,310	$82,661	$ 1,540
Home equity and other	1,272	38	1,533	43
Total consumer loans	71,797	1,348	84,194	1,583
Commercial real estate loans				
Non-owner occupied commercial real estate	—	—	1,065	—
Multifamily	797	12	836	12
Construction/land development	570	11	1,367	47
Total commercial real estate loans	1,367	23	3,268	59
Commercial and industrial loans				
Owner occupied commercial real estate	2,367	55	2,676	96
Commercial business	2,639	66	2,684	83
Total commercial and industrial loans	5,006	121	5,360	179
	$78,170	$ 1,492	$92,822	$ 1,821

Credit Quality Indicators

Management regularly reviews loans in the portfolio to assess credit quality indicators and to determine appropriate loan classification and grading in accordance with applicable bank regulations. The Company's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The Company differentiates its lending portfolios into homogeneous loans and non-homogeneous loans.

The 10 risk rating categories can be generally described by the following groupings for non-homogeneous loans:

Pass. We have five pass risk ratings which represent a level of credit quality that ranges from no well-defined deficiency or weakness to some noted weakness, however the risk of default on any loan classified as pass is expected to be remote. The five pass risk ratings are described below:

Minimal Risk. A minimal risk loan, risk rated 1-Exceptional, is to a borrower of the highest quality. The borrower has an unquestioned ability to produce consistent profits and service all obligations and can absorb severe market disturbances with little or no difficulty.

Low Risk. A low risk loan, risk rated 2-Superior, is similar in characteristics to a minimal risk loan. Balance sheet and operations are slightly more prone to fluctuations within the business cycle; however, debt capacity and debt service coverage remains strong. The borrower will have a strong demonstrated ability to produce profits and absorb market disturbances.

Modest Risk. A modest risk loan, risk rated 3-Excellent, is a desirable loan with excellent sources of repayment and no currently identifiable risk associated with collection. The borrower exhibits a very strong capacity to repay the loan in accordance with the repayment agreement. The borrower may be susceptible to economic cycles, but will have cash reserves to weather these cycles.

Average Risk. An average risk loan, risk rated 4-Good, is an attractive loan with sound sources of repayment and no material collection or repayment weakness evident. The borrower has an acceptable capacity to pay in accordance with the agreement. The borrower is susceptible to economic cycles and more efficient competition, but should have modest reserves sufficient to survive all but the most severe downturns or major setbacks.

Acceptable Risk. An acceptable risk loan, risk rated 5-Acceptable, is a loan with lower than average, but still acceptable credit risk. These borrowers may have higher leverage, less certain but viable repayment sources, have limited financial reserves and may possess weaknesses that can be adequately mitigated through collateral, structural or credit enhancement. The borrower is susceptible to economic cycles and is less resilient to negative market forces or financial events. Reserves may be insufficient to survive a modest downturn.

Watch. A watch loan, risk rated 6-Watch, is still pass-rated, but represents the lowest level of acceptable risk due to an emerging risk element or declining performance trend. Watch ratings are expected to be temporary, with issues resolved or manifested to the extent that a higher or lower rating would be appropriate. The borrower should have a plausible plan, with reasonable certainty of success, to correct the problems in a short period of time. Borrowers rated watch are characterized by elements of uncertainty, such as:

- The borrower may be experiencing declining operating trends, strained cash flows or less-than anticipated financial performance. Cash flow should still be adequate to cover debt service, and the negative trends should be identified as being of a short-term or temporary nature.
- The borrower may have experienced a minor, unexpected covenant violation.
- The borrower may be experiencing tight working capital or have a cash cushion deficiency.
- A loan may also be a watch if financial information is late, there is a documentation deficiency, the borrower has experienced unexpected management turnover, or if it faces industry issues that, when combined with performance factors create uncertainty in its future ability to perform.
- Delinquent payments, increasing and material overdraft activity, request for bulge and/or out-of-formula advances may be an indicator of inadequate working capital and may suggest a lower rating.
- Failure of the intended repayment source to materialize as expected, or renewal of a loan (other than cash/marketable security secured or lines of credit) without reduction are possible indicators of a watch or worse risk rating.

Special Mention. A special mention loan, risk rated 7-Special Mention, has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loans or the institution's credit position at some future date. Loans in this category contain unfavorable characteristics and are generally undesirable. They are currently protected but are potentially weak and constitute an undue and unwarranted credit risk, but not to the point of a substandard classification. A special mention loan has potential weaknesses, which if not checked or corrected, weaken the loan or inadequately protect the Company's position at some future date. Such weaknesses include:

- Performance is poor or significantly less than expected. There may be a temporary debt-servicing deficiency or inadequate working capital as evidenced by a cash cushion deficiency, but not to the extent that repayment is compromised. Material violation of financial covenants is common.
- Loans with unresolved material issues that significantly cloud the debt service outlook, even though a debt servicing deficiency does not currently exist.
- Modest underperformance or deviation from plan for real estate loans where absorption of rental/sales units is necessary to properly service the debt as structured. Depth of support for interest carry provided by owner/guarantors may mitigate and provide for improved rating.
- This rating may be assigned when a loan officer is unable to supervise the credit properly, or when there is an inadequate loan agreement, an inability to control collateral, failure to obtain proper documentation, or any other deviation from prudent lending practices.
- Unlike a substandard credit, there should be a reasonable expectation that these temporary issues will be corrected within the normal course of business, rather than through liquidation of assets, and in a reasonable period of time.

Substandard. A substandard loan, risk rated 8-Substandard, is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the loan. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual loans classified substandard. Loans are classified as substandard when they have unsatisfactory characteristics causing unacceptable levels of risk. A substandard loan normally has one or more well-defined weaknesses that could jeopardize repayment of the loan. The likely need to liquidate assets to correct the problem, rather than repayment from successful operations, is the key distinction between special mention and substandard. The following are examples of well-defined weaknesses:

- Cash flow deficiencies or trends are of a magnitude to jeopardize current and future payments with no immediate relief. A loss is not presently expected, however the outlook is sufficiently uncertain to preclude ruling out the possibility.
- The borrower has been unable to adjust to prolonged and unfavorable industry or economic trends.
- Material underperformance or deviation from plan for real estate loans where absorption of rental/sales units is necessary to properly service the debt and risk is not mitigated by willingness and capacity of owner/guarantor to support interest payments.
- Management character or honesty has become suspect. This includes instances where the borrower has become uncooperative.
- Due to unprofitable or unsuccessful business operations, some form of restructuring of the business, including liquidation of assets, has become the primary source of loan repayment. Cash flow has deteriorated, or been diverted, to the point that sale of collateral is now the Company’s primary source of repayment (unless this was the original source of repayment). If the collateral is under the Company’s control and is cash or other liquid, highly marketable securities and properly margined, then a more appropriate rating might be special mention or watch.
- The borrower is involved in bankruptcy proceedings where collateral liquidation values are expected to fully protect the Company against loss.
- There is material, uncorrectable faulty documentation or materially suspect financial information.

Doubtful. Loans classified as doubtful, risk rated 9-Doubtful, have all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work towards strengthening the loan, classification as a loss (and immediate charge-off) is deferred until more exact status may be determined. Pending factors include proposed merger, acquisition, liquidation procedures, capital injection, and perfection of liens on additional collateral and refinancing plans. In certain circumstances, a doubtful rating will be temporary, while the Company is awaiting an updated collateral valuation. In these cases, once the collateral is valued and appropriate margin applied, the remaining uncollateralized portion will be charged-off. The remaining balance,

properly margined, may then be upgraded to substandard, however must remain on non-accrual.

Loss. Loans classified as loss, risk rated 10-Loss, are considered uncollectible and of such little value that the continuance as an active Company asset is not warranted. This rating does not mean that the loan has no recovery or salvage value, but rather that the loan should be charged-off now, even though partial or full recovery may be possible in the future.

Impaired. Loans are classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal and interest when due, in accordance with the terms of the original loan agreement, without unreasonable delay. This includes all loans classified as nonaccrual and troubled debt restructurings. Impaired loans are risk rated for internal and regulatory rating purposes, but presented separately for clarification.

Homogeneous loans maintain their original risk rating until they are greater than 30 days past due, and risk rating reclassification is based primarily on the past due status of the loan. The risk rating categories can be generally described by the following groupings for commercial and commercial real estate homogeneous loans:

Watch. A homogeneous watch loan, risk rated 6, is 30-59 days past due from the required payment date at month-end.

Special Mention. A homogeneous special mention loan, risk rated 7, is 60-89 days past due from the required payment date at month-end.

S*ubstandard.* A homogeneous substandard loan, risk rated 8, is 90 days or more past due from the required payment date at month-end.

Loss. A homogeneous loss loan is risk rated 10 when the loss has been confirmed and charged off through the Bank's commercial special assets collection process.

The risk rating categories can be generally described by the following groupings for residential and home equity and other homogeneous loans:

Watch. A homogeneous retail watch loan, risk rated 6, is 60-89 days past due from the required payment date at month-end.

Substandard. A homogeneous retail substandard loan, risk rated 8, is 90-179 days past due from the required payment date at month-end.

Loss. A homogeneous retail loss loan is risk rated 10 when it becomes past due 180 cumulative days from the contractual due date. These loans are generally charged-off in the month in which the 180 day period elapses.

Residential and home equity loans modified in a troubled debt restructure are not considered homogeneous. The risk rating classification for such loans are based on the non-homogeneous definitions noted above.

The following tables summarize designated loan grades by loan portfolio segment and loan class.

	At June 30, 2018				
(in thousands)	Pass	Watch	Special mention	Substandard	Total
Consumer loans					
Single family	$1,395,212 [(1)]	$3,360	$ 11,041	$ 6,459	$1,416,072
Home equity and other	510,922	132	695	1,267	513,016
	1,906,134	3,492	11,736	7,726	1,929,088
Commercial real estate loans					
Non-owner occupied commercial real estate	629,257	3,182	7,756	789	640,984
Multifamily	790,836	45,139	—	285	836,260
Construction/land development	757,359	8,951	6,966	4,818	778,094
	2,177,452	57,272	14,722	5,892	2,255,338
Commercial and industrial loans					
Owner occupied commercial real estate	356,391	29,172	13,724	862	400,149
Commercial business	268,488	32,887	16,495	1,168	319,038
	624,879	62,059	30,219	2,030	719,187
	$4,708,465	$122,823	$ 56,677	$ 15,648	$4,903,613

(1) Includes $4.2 million of loans where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

	At December 31, 2017				
(in thousands)	Pass	Watch	Special mention	Substandard	Total
Consumer loans					
Single family	$1,355,965 [(1)]	$2,982	$ 11,328	$ 11,091	$1,381,366
Home equity and other	451,194	143	751	1,401	453,489
	1,807,159	3,125	12,079	12,492	1,834,855
Commercial real estate loans					
Non-owner occupied commercial real estate	613,181	8,801	—	800	622,782
Multifamily	693,190	34,038	507	302	728,037
Construction/land development	664,025	22,062	1,466	78	687,631
	1,970,396	64,901	1,973	1,180	2,038,450
Commercial and industrial loans					
Owner occupied commercial real estate	361,429	20,949	6,399	2,836	391,613
Commercial business	220,461	39,588	1,959	2,701	264,709
	581,890	60,537	8,358	5,537	656,322
	$4,359,445	$128,563	$ 22,410	$ 19,209	$4,529,627

(1) Includes $5.5 million of loans where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

As of June 30, 2018 and December 31, 2017, none of the Company's loans were rated Doubtful or Loss. For a detailed discussion on credit quality, see Note 5, *Loans and Credit Quality*, within our 2017 Annual Report on Form 10-K.

Nonaccrual and Past Due Loans

Loans are placed on nonaccrual status when the full and timely collection of principal and interest is doubtful, generally when the loan becomes 90 days or more past due for principal or interest payment or if part of the principal balance has been charged off. Loans whose repayments are insured by the Federal Housing Administration ("FHA") or guaranteed by the Veterans Administration ("VA") are generally maintained on accrual status even if 90 days or more past due.

The following tables present an aging analysis of past due loans by loan portfolio segment and loan class.

(in thousands)	At June 30, 2018						
	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total loans	90 days or more past due and accruing
Consumer loans							
Single family	$9,857	$4,322	$47,426	$61,605	$1,354,467 [1]	$1,416,072	$40,967 [2]
Home equity and other	477	19	1,267	1,763	511,253	513,016	—
	10,334	4,341	48,693	63,368	1,865,720	1,929,088	40,967
Commercial real estate loans							
Non-owner occupied commercial real estate	—	—	—	—	640,984	640,984	—
Multifamily	—	—	285	285	835,975	836,260	—
Construction/land development	—	—	75	75	778,019	778,094	—
	—	—	360	360	2,254,978	2,255,338	—
Commercial and industrial loans							
Owner occupied commercial real estate	—	—	394	394	399,755	400,149	—
Commercial business	—	—	1,150	1,150	317,888	319,038	—
	—	—	1,544	1,544	717,643	719,187	—
	$10,334	$4,341	$50,597	$65,272	$4,838,341	$4,903,613	$40,967

(in thousands)	At December 31, 2017						
	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total loans	90 days or more past due and accruing
Consumer loans							
Single family	$10,493	$4,437	$48,262	$63,192	$1,318,174 [1]	$1,381,366	$37,171 [2]
Home equity and other	750	20	1,404	2,174	451,315	453,489	—
	11,243	4,457	49,666	65,366	1,769,489	1,834,855	37,171
Commercial real estate loans							
Non-owner occupied commercial real estate	—	—	—	—	622,782	622,782	—
Multifamily	—	—	302	302	727,735	728,037	—
Construction/land development	641	—	78	719	686,912	687,631	—
	641	—	380	1,021	2,037,429	2,038,450	—
Commercial and industrial loans							
Owner occupied commercial real estate	—	—	640	640	390,973	391,613	—
Commercial business	377	—	1,526	1,903	262,806	264,709	—
	377	—	2,166	2,543	653,779	656,322	—
	$12,261	$4,457	$52,212	$68,930	$4,460,697	$4,529,627	$37,171

(1) Includes $4.2 million and $5.5 million of loans at June 30, 2018 and December 31, 2017, respectively, where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in our consolidated statements of operations.

(2) FHA-insured and VA-guaranteed single family loans that are 90 days or more past due are maintained on accrual status if they are determined to have little to no risk of loss.

The following tables present performing and nonperforming loan balances by loan portfolio segment and loan class.

	At June 30, 2018		
(in thousands)	Accrual	Nonaccrual	Total
Consumer loans			
Single family	$1,409,613 [1]	$ 6,459	$1,416,072
Home equity and other	511,749	1,267	513,016
	1,921,362	7,726	1,929,088
Commercial real estate loans			
Non-owner occupied commercial real estate	640,984	—	640,984
Multifamily	835,975	285	836,260
Construction/land development	778,019	75	778,094
	2,254,978	360	2,255,338
Commercial and industrial loans			
Owner occupied commercial real estate	399,755	394	400,149
Commercial business	317,888	1,150	319,038
	717,643	1,544	719,187
	$4,893,983	$ 9,630	$4,903,613

	At December 31, 2017		
(in thousands)	Accrual	Nonaccrual	Total
Consumer loans			
Single family	$1,370,275 [1]	$ 11,091	$1,381,366
Home equity and other	452,085	1,404	453,489
	1,822,360	12,495	1,834,855
Commercial real estate loans			
Non-owner occupied commercial real estate	622,782	—	622,782
Multifamily	727,735	302	728,037
Construction/land development	687,553	78	687,631
	2,038,070	380	2,038,450
Commercial and industrial loans			
Owner occupied commercial real estate	390,973	640	391,613
Commercial business	263,183	1,526	264,709
	654,156	2,166	656,322
	$4,514,586	$ 15,041	$4,529,627

(1) Includes $4.2 million and $5.5 million of loans at June 30, 2018 and December 31, 2017, where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

The following tables present information about TDR activity during the periods presented.

(dollars in thousands)	Three Months Ended June 30, 2018			
	Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	5	$ 777	$ —
	Payment restructure	39	8,741	—
Total consumer				
	Interest rate reduction	5	777	—
	Payment restructure	39	8,741	—
		44	9,518	—
Total loans				
	Interest rate reduction	5	777	—
	Payment restructure	39	8,741	—
		44	$ 9,518	$ —

(dollars in thousands)	Three Months Ended June 30, 2017			
	Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	13	$ 2,097	$ —
	Payment restructure	30	6,015	—
Home equity and other				
	Payment restructure	1	277	—
Total consumer				
	Interest rate reduction	13	2,097	—
	Payment restructure	31	6,292	—
		44	8,389	—
Commercial real estate loans				
Construction/land development				
	Payment restructure	1	436	—
Total commercial real estate		1	436	—
Total loans				
	Interest rate reduction	13	2,097	—
	Payment restructure	32	6,728	—
		45	$ 8,825	$ —

(dollars in thousands)	Six Months Ended June 30, 2018 Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	13	$ 2,462	$ —
	Payment restructure	64	13,930	—
Total consumer				
	Interest rate reduction	13	2,462	—
	Payment restructure	64	13,930	—
		77	16,392	—
Commercial and industrial loans				
Commercial business				
	Payment restructure	2	267	—
Total commercial and industrial				
	Payment restructure	2	267	—
		2	267	—
Total loans				
	Interest rate reduction	13	2,462	—
	Payment restructure	66	14,197	—
		79	$ 16,659	$ —

(dollars in thousands)	Six Months Ended June 30, 2017 Concession type	Number of loan modifications	Recorded investment	Related charge-offs
Consumer loans				
Single family				
	Interest rate reduction	39	$ 6,920	$ —
	Payment restructure	42	8,892	—
Home equity and other				
	Payment restructure	2	351	—
Total consumer				
	Interest rate reduction	39	6,920	—
	Payment restructure	44	9,243	—
		83	16,163	—
Commercial real estate loans				
Construction/land development				
	Payment restructure	1	436	—
Total commercial real estate		1	436	
Commercial and industrial loans				
Commercial business				
	Payment restructure	1	18	—
Total commercial and industrial				
	Payment restructure	1	18	—
Total loans				
	Interest rate reduction	39	6,920	—
	Payment restructure	46	9,697	—
		85	$ 16,617	$ —

The following table presents loans that were modified as TDRs within the previous 12 months and subsequently re-defaulted during the three and six months ended June 30, 2018 and 2017, respectively. A TDR loan is considered re-defaulted when it becomes doubtful that the objectives of the modifications will be met, generally when a consumer loan TDR becomes 60 days or more past due on principal or interest payments or when a commercial loan TDR becomes 90 days or more past due on principal or interest payments.

	Three Months Ended June 30,			
	2018		2017	
(dollars in thousands)	Number of loan relationships that re-defaulted	Recorded investment	Number of loan relationships that re-defaulted	Recorded investment
Consumer loans				
Single family	6	$ 1,395	7	$ 1,382
	6	$ 1,395	7	$ 1,382

	Six Months Ended June 30,			
	2018		2017	
(dollars in thousands)	Number of loan relationships that re-defaulted	Recorded investment	Number of loan relationships that re-defaulted	Recorded investment
Consumer loans				
Single family	12	$ 2,279	8	$ 1,652
	12	$ 2,279	8	$ 1,652

NOTE 4–DEPOSITS:

Deposit balances, including stated rates, were as follows.

(in thousands)	At June 30, 2018	At December 31, 2017
Noninterest-bearing accounts	$ 1,021,790	$ 980,902
NOW accounts, 0.00% to 1.00% at June 30, 2018 and 0.00% to 1.98% at December 31, 2017	486,104	461,349
Statement savings accounts, due on demand, 0.05% to 1.13% at June 30, 2018 and December 31, 2017	283,969	293,858
Money market accounts, due on demand, 0.00% to 1.92% at June 30, 2018 and 0.00% to 1.80% at December 31, 2017	1,932,340	1,834,154
Certificates of deposit, 0.10% to 3.80% at June 30, 2018 and 0.05% to 3.80% at December 31, 2017	1,396,082	1,190,689
	$ 5,120,285	$ 4,760,952

Interest expense on deposits was as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2018	2017	2018	2017
NOW accounts	$ 430	$ 503	$ 870	$ 980
Statement savings accounts	217	253	446	505
Money market accounts	4,064	1,935	7,523	4,165
Certificates of deposit	4,851	3,176	8,511	5,840
	$ 9,562	$ 5,867	$ 17,350	$ 11,490

The weighted-average interest rates on certificates of deposit were 1.50% and 1.12% at June 30, 2018 and December 31, 2017, respectively.

Certificates of deposit outstanding mature as follows.

(in thousands)	At June 30, 2018
Within one year	$ 1,114,257
One to two years	207,361
Two to three years	45,187
Three to four years	10,340
Four to five years	18,660
Thereafter	277
	$ 1,396,082

The aggregate amount of time deposits in denominations of more than $250 thousand at June 30, 2018 and December 31, 2017 were $86.3 million and $88.8 million, respectively. There were $607.8 million and $345.5 million of brokered deposits at June 30, 2018 and December 31, 2017, respectively.

NOTE 5–DERIVATIVES AND HEDGING ACTIVITIES:

To reduce the risk of significant interest rate fluctuations on the value of certain assets and liabilities, such as certain mortgage loans held for sale or Mortgage Servicing Rights ("MSRs"), the Company utilizes derivatives, such as forward sale commitments, futures, option contracts, interest rate swaps and interest rate swaptions as risk management instruments in its hedging strategy. Derivative transactions are measured in terms of notional amount, which is not recorded in the consolidate

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d statements of financial condition. The notional amount is generally not exchanged and is used as the basis for interest and other contractual payments.

We held no derivatives designated as a fair value, cash flow or foreign currency hedge instrument at June 30, 2018 or December 31, 2017. Derivatives are reported at their respective fair values in the other assets or accounts payable and other liabilities line items on the consolidated statements of financial condition, with changes in fair value reflected in current period earnings.

As permitted under U.S. GAAP, the Company nets derivative assets and liabilities when a legally enforceable master netting agreement exists between the Company and the derivative counterparty, which are documented under industry standard master agreements and credit support annexes. The Company's master netting agreements provide that following an uncured payment default or other event of default, the non-defaulting party may promptly terminate all transactions between the parties and determine a net amount due to be paid to, or by, the defaulting party. An event of default may also occur under a credit support annex if a party fails to make a collateral delivery (which remains uncured following applicable notice and grace periods). The Company's right of offset requires that master netting agreements are legally enforceable and that the exercise of rights by the non-defaulting party under these agreements will not be stayed or avoided under applicable law upon an event of default, including bankruptcy, insolvency or similar proceeding.

The collateral used under the Company's master netting agreements is typically cash, but securities may be used under agreements with certain counterparties. Receivables related to cash collateral that has been paid to counterparties is included in other assets on the Company's consolidated statements of financial condition. Any securities pledged to counterparties as collateral remain on the consolidated statements of financial condition. Refer to Note 2, *Investment Securities,* for further information on securities collateral pledged. At June 30, 2018 and December 31, 2017, the Company did not hold any collateral received from counterparties under derivative transactions.

For further information on the policies that govern derivative and hedging activities, see Note 1, *Summary of Significant Accounting Policies,* and Note 11, *Derivatives and Hedging Activities,* within our 2017 Annual Report on Form 10-K.

The notional amounts and fair values for derivatives consist of the following.

	At June 30, 2018		
	Notional amount	Fair value derivatives	
(in thousands)		Asset	Liability
Forward sale commitments	$1,609,872	$2,224	$(3,134)
Interest rate swaptions	30,000	79	—
Interest rate lock and purchase loan commitments	594,753	16,972	(106)
Interest rate swaps	1,311,000	9,609	(35,063)
Eurodollar futures	4,483,000	78	—
Total derivatives before netting	$8,028,625	28,962	(38,303)
Netting adjustment/Cash collateral [(1)]		(8,771)	33,928
Carrying value on consolidated statements of financial condition		$20,191	$(4,375)

(1) Includes cash collateral of $25.2 million at June 30, 2018 as part of netting adjustments which primarily consists of collateral transferred by the Company at the initiation of derivative transactions and held by the counterparty as security.

	At December 31, 2017		
	Notional amount	Fair value derivatives	
(in thousands)		Asset	Liability
Forward sale commitments	$1,687,658	$1,311	$(1,445)
Interest rate swaptions	120,000	—	—
Interest rate lock and purchase loan commitments	472,733	12,950	(25)
Interest rate swaps	1,869,000	12,171	(23,654)
Eurodollar futures	3,287,000	—	(101)
Total derivatives before netting	$7,436,391	26,432	(25,225)
Netting adjustment/Cash collateral [(1)]		(6,646)	23,505
Carrying value on consolidated statements of financial condition		$19,786	$(1,720)

(1) Includes cash collateral of $16.9 million at December 31, 2017 as part of netting adjustments which primarily consists of collateral transferred by the Company at the initiation of derivative transactions and held by the counterparty as security.

The following tables present gross and net information about derivative instruments.

	At June 30, 2018				
(in thousands)	Gross fair value	Netting adjustments/ Cash collateral[(1)]	Carrying value	Securities not offset in consolidated balance sheet (disclosure-only netting)	Net amount
Derivative assets	$28,962	$(8,771)	$20,191	$ —	$20,191
Derivative liabilities	(38,303)	33,928	(4,375)	3,766	(609)

	At December 31, 2017				
(in thousands)	Gross fair value	Netting adjustments/ Cash collateral[(1)]	Carrying value	Securities not offset in consolidated balance sheet (disclosure-only netting)	Net amount
Derivative assets	$26,432	$(6,646)	$19,786	$ —	$19,786

Derivative liabilities	(25,225)	23,505	(1,720)	1,213	(507)

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(1) Includes cash collateral of $25.2 million and $16.9 million at June 30, 2018 and December 31, 2017, respectively, as part of the netting adjustments which primarily consists of collateral transferred by the Company at the initiation of derivative transactions and held by the counterparty as security.

The following table presents the net gain (loss) recognized on derivatives, including economic hedge derivatives, within the respective line items in the statement of operations for the periods indicated.

(in thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Recognized in noninterest income:				
Net gain (loss) on loan origination and sale activities [1]	$2,957	$(10,109)	$17,082	$(11,608)
Loan servicing (loss) income [2]	(12,188)	8,874	(43,165)	9,253
	$(9,231)	$(1,235)	$(26,083)	$(2,355)

(1) Comprised of interest rate lock commitments ("IRLCs") and forward contracts used as an economic hedge of IRLCs and single family mortgage loans held for sale.
(2) Comprised of interest rate swaps, interest rate swaptions and forward contracts used as an economic hedge of single family MSRs.

NOTE 6–MORTGAGE BANKING OPERATIONS:

Loans held for sale consisted of the following.

(in thousands)	At June 30, 2018	At December 31, 2017
Single family	$527,088	$ 577,313
Multifamily DUS® [1]	35,656	29,651
Small Business Administration ("SBA")	4,253	3,938
CRE-Non-DUS® [1][2]	1,517	—
Total loans held for sale	$568,514	$ 610,902

(1) Fannie Mae Multifamily Delegated Underwriting and Servicing Program (“DUS®) is a registered trademark of Fannie Mae.
(2) Loans originated as Held for Investment.

Loans sold proceeds consisted of the following.

(in thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Single family	$1,768,348 (1)	$1,808,500	$3,319,072 (1)	$3,548,237
Multifamily DUS® [2]	54,621	35,312	87,597	112,161
SBA	3,622	3,532	7,314	11,167
CRE-Non-DUS® [2][3]	114,650	21,163	114,650	26,714
Total loans sold	$1,941,241	$1,868,507	$3,528,633	$3,698,279

(1) Includes proceeds of $138.6 million in single family loans originated as held for investment.
(2) Fannie Mae Multifamily DUS® is a registered trademark of Fannie Mae.
(3) Loans originated as Held for Investment.

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Gain on loan origination and sale activities, including the effects of derivative risk management instruments, consisted of the following.

(in thousands)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Single family:				
Servicing value and secondary market gains[1]	$48,093	$57,353	$89,520	$107,891
Loan origination and funding fees	6,158	6,823	11,603	12,604
Total single family	54,251	64,176	101,123	120,495
Multifamily DUS®	1,613	1,273	2,759	4,633
SBA	385	316	686	918
CRE-Non-DUS® [2]	800	143	800	143
Total gain on loan origination and sale activities	$57,049	$65,908	$105,368	$126,189

(1) Comprised of gains and losses on interest rate lock and purchase loan commitments (which considers the value of servicing), single family loans held for sale, forward sale commitments used to economically hedge secondary market activities, and changes in the Company's repurchase liability for loans that have been sold.
(2) Loan originated as held for investment.

The Company’s portfolio of loans serviced for others is primarily comprised of loans held in U.S. government and agency MBS issued by Fannie Mae, Freddie Mac and Ginnie Mae. Loans serviced for others are not included in the consolidated statements of financial condition as they are not assets of the Company.

The composition of loans serviced for others that contribute to loan servicing income is presented below at the unpaid principal balance.

(in thousands)	At June 30, 2018	At December 31, 2017
Single family		
U.S. government and agency	$18,493,704	$22,123,710
Other	579,472	507,437
	19,073,176	22,631,147
Commercial		
Multifamily DUS®	1,357,929	1,311,399
Other	82,083	79,797
	1,440,012	1,391,196
Total loans serviced for others	$20,513,188	$24,022,343

The Company has made representations and warranties that the loans sold meet certain requirements. The Company may be required to repurchase mortgage loans or indemnify loan purchasers due to defects in the origination process of the loan, such as documentation errors, underwriting errors and judgments, appraisal errors, early payment defaults and fraud. For further information on the Company's mortgage repurchase liability, see Note 7, *Commitments, Guarantees and Contingencies,* of this Quarterly Report on Form 10-Q.

The following is a summary of changes in the Company's liability for estimated mortgage repurchase losses.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2018	2017	2018	2017
Balance, beginning of period	$2,665	$2,863	$3,015	$3,382
Additions (reductions), net of adjustments[1]	(5)	328	605	(32)
Realized losses [2]	(156)	(201)	(1,116)	(360)
Balance, end of period	$2,504	$2,990	$2,504	$2,990

(1) Includes additions for new loan sales and changes in estimated probable future repurchase losses on previously sold loans.

(2) Includes principal losses and accrued interest on repurchased loans, “make-whole” settlements, settlements with claimants and certain related expense.

The Company has agreements with certain investors to advance scheduled principal and interest amounts on delinquent loans. Advances are also made to fund the foreclosure and collection costs of delinquent loans prior to the recovery of reimbursable amounts from investors or borrowers. Advances of $2.6 million and $5.3 million were recorded in other assets as of June 30, 2018 and December 31, 2017, respectively.

When the Company has the unilateral right to repurchase Ginnie Mae pool loans it has previously sold (generally loans that are more than 90 days past due), the Company then records the loan on its consolidated statement of financial condition. At June 30, 2018 and December 31, 2017, delinquent or defaulted mortgage loans currently in Ginnie Mae pools that the Company has recognized on its consolidated statements of financial condition totaled $41.3 million and $39.3 million, respectively, with a corresponding amount recorded within accounts payable and other liabilities on the consolidated statements of financial condition. The recognition of previously sold loans does not impact the accounting for the previously recognized MSRs.

Revenue from mortgage servicing, including the effects of derivative risk management instruments, consisted of the following.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2018	2017	2018	2017
Servicing income, net:				
Servicing fees and other	$18,385	$15,977	$36,836	$32,156
Changes in fair value of single family MSRs due to modeled amortization [1]	(9,400)	(8,909)	(18,270)	(17,429)
Amortization of multifamily and SBA MSRs	(1,064)	(761)	(2,113)	(1,692)
	7,921	6,307	16,453	13,035
Risk management, single family MSRs:				
Changes in fair value of MSRs due to changes in market inputs and/or model updates [2]	11,299 [3]	(6,417)	41,318 [3]	(4,285)
Net (loss) gain from derivatives economically hedging MSR	(12,188)	8,874	(43,165)	9,253
	(889)	2,457	(1,847)	4,968
Loan servicing income	$7,032	$8,764	$14,606	$18,003

(1) Represents changes due to collection/realization of expected cash flows and curtailments.

(2) Principally reflects changes in market inputs, which include current market interest rates and prepayment model updates, both of which affect future prepayment speed and cash flow projections.

(3) Includes pre-tax income of $573 thousand, net of brokerage fees and prepayment reserves, resulting from the sale of single family MSRs during the three and six months ended June 30, 2018.

All MSRs are initially measured and recorded at fair value at the time loans are sold. Single family MSRs are subsequently carried at fair value with changes in fair value reflected in earnings in the periods in which the changes occur, while multifamily and SBA MSRs are subsequently carried at the lower of amortized cost or fair value.

The fair value of MSRs is determined based on the price that would be received to sell the MSRs in an orderly transaction between market participants at the measurement date. The Company determines fair value using a valuation model that calculates the net present value of estimated future cash flows. Estimates of future cash flows include contractual servicing fees, ancillary income and costs of servicing, the timing of which are impacted by assumptions, primarily expected prepayment speeds and discount rates, which relate to the underlying performance of the loans.

The initial fair value measurement of MSRs is adjusted up or down depending on whether the underlying loan pool interest rate is at a premium, discount or par. Key economic assumptions used in measuring the initial fair value of capitalized single family MSRs were as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
(rates per annum) [1]	2018	2017	2018	2017
Constant prepayment rate ("CPR") [2]	15.69%	14.75%	14.72%	13.39%
Discount rate [3]	10.29%	10.30%	10.26%	10.29%

(1) Weighted average rates for sales during the period for sales of loans with similar characteristics.
(2) Represents the expected lifetime average.
(3) Discount rate is a rate based on market observations.

Key economic assumptions and the sensitivity of the current fair value for single family MSRs to immediate adverse changes in those assumptions were as follows.

(dollars in thousands)	At June 30, 2018
Fair value of single family MSR	$245,744
Expected weighted-average life (in years)	6.58
Constant prepayment rate [1]	11.18 %
Impact on fair value of 25 basis points adverse change in interest rates	$(13,929)
Impact on fair value of 50 basis points adverse change in interest rates	$(29,665)
Discount rate	10.40 %
Impact on fair value of 100 basis points increase	$(8,988)
Impact on fair value of 200 basis points increase	$(17,353)

(1) Represents the expected lifetime average.

These sensitivities are hypothetical and subject to key assumptions of the underlying valuation model. As the table above demonstrates, the Company's methodology for estimating the fair value of MSRs is highly sensitive to changes in key assumptions. For example, actual prepayment experience may differ and any difference may have a material effect on MSR fair value. Changes in fair value resulting from changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the MSRs is calculated without changing any other assumption; in reality, changes in one factor may be associated with changes in another (for example, decreases in market interest rates may provide an incentive to refinance; however, this may also indicate a slowing economy and an increase in the unemployment rate, which reduces the number of borrowers who qualify for refinancing), which may magnify or counteract the sensitivities. Thus, any measurement of MSR fair value is limited by the conditions existing and assumptions made as of a particular point in time. Those assumptions may not be appropriate if they are applied to a different point in time.

On June 29, 2018, the Company successfully closed the sale of the rights to service $4.90 billion in total unpaid principal balance of single family mortgage loans serviced for Fannie Mae, representing 21.1% of HomeStreet's total single family mortgage loans serviced for others portfolio as of March 31, 2018. The sale resulted in a $573 thousand

pre-tax increase in mortgage servicing income during the quarter. The Company expects to finalize the servicing transfer for these loans by August 16, 2018, and is subservicing these loans until the transfer date. These loans are excluded from the Company's MSR portfolio at June 30, 2018.

The changes in single family MSRs measured at fair value are as follows.

(in thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Beginning balance	$294,062	$235,997	$258,560	$226,113
Additions and amortization:				
Originations	16,673	15,748	31,026	31,666
Purchases	—	211	—	565
Sale of single family MSRs	(66,890)	—	(66,890)	—
Changes due to modeled amortization[1]	(9,400)	(8,909)	(18,270)	(17,429)
Net additions and amortization	(59,617)	7,050	(54,134)	14,802
Changes in fair value of MSRs due to changes in market inputs and/or model updates [2]	11,299 [3]	(6,426)	41,318 [3]	(4,294)
Ending balance	$245,744	$236,621	$245,744	$236,621

(1) Represents changes due to collection/realization of expected cash flows and curtailments.

(2) Principally reflects changes in market inputs, which include current market interest rates and prepayment model updates, both of which affect future prepayment speed and cash flow projections.

(3) Includes pre-tax income of $573 thousand, net of brokerage fees and prepayment reserves, resulting from the sale of single family MSRs during the three and six months ended June 30, 2018.

MSRs resulting from the sale of multifamily loans are recorded at fair value and subsequently carried at the lower of amortized cost or fair value. Multifamily MSRs are amortized in proportion to, and over, the estimated period the net servicing income will be collected.

The changes in multifamily MSRs measured at the lower of amortized cost or fair value were as follows.

(in thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Beginning balance	$26,042	$21,424	$26,093	$19,747
Origination	1,409	937	2,343	3,545
Amortization	(991)	(761)	(1,976)	(1,692)
Ending balance	$26,460	$21,600	$26,460	$21,600

At June 30, 2018, the expected weighted-average life of the Company’s multifamily MSRs was 10.32 years. Projected amortization expense for the gross carrying value of multifamily MSRs is estimated as follows.

(in thousands)	At June 30, 2018
Remainder of 2018	$1,845
2019	3,626
2020	3,557
2021	3,357
2022	3,046
2023 and thereafter	11,029
Carrying value of multifamily MSR	$26,460

NOTE 7–COMMITMENTS, GUARANTEES AND CONTINGENCIES:

Commitments

Commitments to extend credit are agreements to lend to customers in accordance with predetermined contractual provisions. These commitments may be for specific periods or contain termination clauses and may require the payment of a fee by the borrower. The total amount of unused commitments does not necessarily represent future credit exposure or cash requirements in that commitments may expire without being drawn upon.

The Company makes certain unfunded loan commitments as part of its lending activities that have not been recognized in the Company’s financial statements. These include commitments to extend credit made as part of the Company's lending activities on loans the Company intends to hold in its loans held for investment portfolio. The aggregate amount of these unrecognized unfunded loan commitments existing at June 30, 2018 and December 31, 2017 was $56.1 million and $56.9 million, respectively.

In the ordinary course of business, the Company extends secured and unsecured open-end loans to meet the financing needs of its customers. Undistributed construction loan commitments, where the Company has an obligation to advance funds for construction progress payments, were $745.5 million and $706.7 million at June 30, 2018 and December 31, 2017, respectively. Unused home equity and commercial banking funding lines totaled $524.6 million and $456.1 million at June 30, 2018 and December 31, 2017, respectively. The Company has recorded an allowance for credit losses on loan commitments, included in accounts payable and other liabilities on the consolidated statements of financial condition, of $1.5 million and $1.3 million at June 30, 2018 and December 31, 2017, respectively.

Guarantees

In the ordinary course of business, the Company sells and services loans through the Fannie Mae Multifamily DUS® program and shares in the risk of loss with Fannie Mae under the terms of the DUS® contracts (pari passu loss sharing agreement). Under such agreements, the Company and Fannie Mae share losses on a pro rata basis, where the Company is responsible for losses incurred up to one-third of principal balance on each loan and with two-thirds of the loss covered by Fannie Mae. For loans that have been sold through this program, a liability is recorded for this loss sharing arrangement under the accounting guidance for guarantees. As of June 30, 2018 and December 31, 2017, the total unpaid principal balance of loans sold under this program was $1.36 billion and $1.31 billion, respectively. The Company’s reserve liability related to this arrangement totaled $2.1 million and $2.0 million at June 30, 2018 and December 31, 2017, respectively. There were no actual losses incurred under this arrangement during the three and six months ended June 30, 2018 and 2017.

Mortgage repurchase liability

In the ordinary course of business, the Company sells residential mortgage loans to GSEs and other entities. In addition, the Company pools FHA-insured and VA-guaranteed mortgage loans into Ginnie Mae guaranteed mortgage-backed securities and pools conventional loans into Fannie Mae and Freddie Mac guaranteed mortgage-backed securities. The Company has made representations and warranties that the loans sold meet certain requirements. The Company may be required to repurchase mortgage loans, or indemnify loan purchasers, or FHA or VA due to defects in the origination process of the loan, such as documentation errors, underwriting errors and judgments, early payment defaults and fraud.

These obligations expose the Company to mark-to-market and credit losses on the repurchased mortgage loans after accounting for any mortgage insurance that we may receive. Generally, the maximum amount of future payments the Company would be required to make for breaches of these representations and warranties would be equal to the

unpaid principal balance of such loans that are deemed to have defects that were sold to purchasers plus, in certain circumstances, accrued and unpaid interest on such loans and certain expenses.

The Company does not typically receive repurchase requests from the FHA or VA. As an originator of FHA-insured or VA-guaranteed loans, the Company is responsible for obtaining the insurance with the FHA or the guarantee with the VA. If loans are later found not to meet the requirements of the FHA or VA, through required internal quality control reviews or through agency audits, the Company may be required to indemnify the FHA or VA against losses. The loans remain in Ginnie Mae pools unless and until they are repurchased by the Company. In general, once an FHA or VA loan becomes 90 days past due, the Company repurchases the FHA or VA residential mortgage loan to minimize the cost of interest advances on the loan. If the loan is cured through borrower efforts or through loss mitigation activities, the loan may be resold into a Ginnie Mae pool. The Company's liability for mortgage loan repurchase losses incorporates probable losses associated with such indemnification.

The total unpaid principal balance of loans sold on a servicing-retained basis that were subject to the terms and conditions of these representations and warranties totaled $19.16 billion and $22.71 billion as of June 30, 2018 and December 31, 2017, respectively. At June 30, 2018 and December 31, 2017, the Company had recorded a mortgage repurchase liability for loans sold on a servicing-retained and servicing-released basis, included in accounts payable and other liabilities on the consolidated statements of financial condition, of $2.5 million and $3.0 million, respectively.

Contingencies

In the normal course of business, the Company may have various legal claims and other similar contingent matters outstanding for which a loss may be realized. For these claims, the Company establishes a liability for contingent losses when it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. For claims determined to be reasonably possible but not probable of resulting in a loss, there may be a range of possible losses in excess of the established liability. At June 30, 2018, we reviewed our legal claims and determined that there were no material claims that were considered to be probable or reasonably possible of resulting in a material loss. As a result, the Company did not have any material amounts reserved for legal claims as of June 30, 2018.

NOTE 8–FAIR VALUE MEASUREMENT:

For a further discussion of fair value measurements, including information regarding the Company’s valuation methodologies and the fair value hierarchy, see Note 17, *Fair Value Measurement* within our 2017 Annual Report on Form 10-K.

Valuation Processes
The Company has various processes and controls in place to ensure that fair value measurements are reasonably estimated. The Finance Committee of the Board provides oversight and approves the Company’s Asset/Liability Management Policy ("ALMP"). The Company's ALMP governs, among other things, the application and control of the valuation models used to measure fair value. On a quarterly basis, the Company’s Asset/Liability Management Committee ("ALCO") and the Finance Committee of the Board review significant modeling variables used to measure the fair value of the Company’s financial instruments, including the significant inputs used in the valuation of single family MSRs. Additionally, ALCO periodically obtains an independent review of the MSR valuation process and procedures, including a review of the model architecture and the valuation assumptions. The Company obtains an MSR valuation from an independent valuation firm monthly to assist with the validation of the fair value estimate and the reasonableness of the assumptions used in measuring fair value.

The Company’s real estate valuations are overseen by the Company’s appraisal department. The appraisal department maintains the Company’s appraisal policy and recommends changes to the policy subject to approval by the Company’s Loan Committee and the Credit Committee of the Board. The Company’s appraisals are prepared by independent third-party appraisers and the Company’s internal appraisers. Single family appraisals are generally reviewed by the Company’s single family loan underwriters. Single family appraisals with unusual, higher risk or complex characteristics, as well as commercial real estate appraisals, are reviewed by the Company’s appraisal department.

We obtain pricing from third party service providers for determining the fair value of a substantial portion of our investment securities available for sale. We have processes in place to evaluate such third party pricing services to ensure information obtained and valuation techniques used are appropriate. For fair value measurements obtained from third party services, we monitor and review the results to ensure the values are reasonable and in line with market experience for similar classes of securities. While the inputs used by the pricing vendor in determining fair value are not provided, and therefore unavailable for our review, we do perform certain procedures to validate the values received, including comparisons to other sources of valuation (if available), comparisons to other independent market data and a variance analysis of prices by Company personnel that are not responsible for the performance of

the investment securities.

Estimation of Fair Value

Fair value is based on quoted market prices, when available. In cases where a quoted price for an asset or liability is not available, the Company uses valuation models to estimate fair value. These models incorporate inputs such as forward yield curves, loan prepayment assumptions, expected loss assumptions, market volatilities, and pricing spreads utilizing market-based inputs where readily available. The Company believes its valuation methods are appropriate and consistent with those that would be used by other market participants. However, imprecision in estimating unobservable inputs and other factors may result in these fair value measurements not reflecting the amount realized in an actual sale or transfer of the asset or liability in a current market exchange.

The following table summarizes the fair value measurement methodologies, including significant inputs and assumptions, and classification of the Company's assets and liabilities.

Asset/Liability class	**Valuation methodology, inputs and assumptions**	**Classification**
Cash and cash equivalents	Carrying value is a reasonable estimate of fair value based on the short-term nature of the instruments.	Estimated fair value classified as Level 1.
Investment securities		
Investment securities available for sale	Observable market prices of identical or similar securities are used where available. If market prices are not readily available, value is based on discounted cash flows using the following significant inputs: • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	Level 2 recurring fair value measurement.
Investment securities held to maturity	Observable market prices of identical or similar securities are used where available. If market prices are not readily available, value is based on discounted cash flows using the following significant inputs: • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	Carried at amortized cost. Estimated fair value classified as Level 2.
Loans held for sale		
Single family loans, excluding loans transferred from held for investment	Fair value is based on observable market data, including: • Quoted market prices, where available • Dealer quotes for similar loans • Forward sale commitments	Level 2 recurring fair value measurement.
	When not derived from observable market inputs, fair value is based on discounted cash flows, which considers the following inputs: • Current lending rates for new loans • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	Estimated fair value classified as Level 3.
Loans originated as held for investment and transferred to held for sale	Fair value is based on discounted cash flows, which considers the following inputs: • Current lending rates for new loans • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	Carried at lower of amortized cost or fair value. Estimated fair value classified as Level 3.
Multifamily loans (DUS®) and other	The sale price is set at the time the loan commitment is made, and as such, subsequent changes in market conditions have a very limited effect, if any, on the value of these loans carried on the consolidated statements of financial condition, which are typically sold within 30 days of origination.	Carried at lower of amortized cost or fair value. Estimated fair value classified as Level 2.

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Asset/Liability class	Valuation methodology, inputs and assumptions	Classification
Loans held for investment		
Loans held for investment, excluding collateral dependent loans and loans transferred from held for sale	Fair value is based on discounted cash flows, which considers the following inputs: • Current lending rates for new loans • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	For the carrying value of loans see Note 1–Summary of Significant Accounting Policies of the 2017 Annual Report on Form 10-K. Estimated fair value classified as Level 3.
Loans held for investment, collateral dependent	Fair value is based on appraised value of collateral, which considers sales comparison and income approach methodologies. Adjustments are made for various factors, which may include: • Adjustments for variations in specific property qualities such as location, physical dissimilarities, market conditions at the time of sale, income producing characteristics and other factors • Adjustments to obtain "upon completion" and "upon stabilization" values (e.g., property hold discounts where the highest and best use would require development of a property over time) • Bulk discounts applied for sales costs, holding costs and profit for tract development and certain other properties	Carried at lower of amortized cost or fair value of collateral, less the estimated cost to sell. Classified as a Level 3 nonrecurring fair value measurement in periods where carrying value is adjusted to reflect the fair value of collateral.
Loans held for investment transferred from loans held for sale	Fair value is based on discounted cash flows, which considers the following inputs: • Current lending rates for new loans • Expected prepayment speeds • Estimated credit losses • Market liquidity adjustments	Level 3 recurring fair value measurement.
Mortgage servicing rights		
Single family MSRs	For information on how the Company measures the fair value of its single family MSRs, including key economic assumptions and the sensitivity of fair value to changes in those assumptions, see Note 6, *Mortgage Banking Operations*.	Level 3 recurring fair value measurement.
Multifamily and SBA MSRs	Fair value is based on discounted estimated future servicing fees and other revenue, less estimated costs to service the loans.	Carried at lower of amortized cost or fair value. Estimated fair value classified as Level 3.
Derivatives		
Eurodollar futures	Fair value is based on closing exchange prices.	Level 1 recurring fair value measurement.
Interest rate swaps Interest rate swaptions Forward sale commitments	Fair value is based on quoted prices for identical or similar instruments, when available. When quoted prices are not available, fair value is based on internally developed modeling techniques, which require the use of multiple observable market inputs including: • Forward interest rates • Interest rate volatilities	Level 2 recurring fair value measurement.

Asset/Liability class	Valuation methodology, inputs and assumptions	Classification
Interest rate lock and purchase loan commitments	The fair value considers several factors including: • Fair value of the underlying loan based on quoted prices in the secondary market, when available. • Value of servicing • Fall-out factor	Level 3 recurring fair value measurement.
Other real estate owned ("OREO")	Fair value is based on appraised value of collateral, less the estimated cost to sell. See discussion of "loans held for investment, collateral dependent" above for further information on appraisals.	Carried at lower of amortized cost or fair value of collateral (Level 3), less the estimated cost to sell.
Federal Home Loan Bank stock	Carrying value approximates fair value as FHLB stock can only be purchased or redeemed at par value.	Carried at par value. Estimated fair value classified as Level 2.
Deposits		
Time deposits	Fair value is estimated as the amount payable on demand at the reporting date.	Carried at historical cost. Fair value classified as Level 2.
Fixed-maturity certificates of deposit	Fair value is estimated using discounted cash flows based on market rates currently offered for deposits of similar remaining time to maturity.	Carried at historical cost. Estimated fair value classified as Level 2.
Federal Home Loan Bank advances	Fair value is estimated using discounted cash flows based on rates currently available for advances with similar terms and remaining time to maturity.	Carried at historical cost. Estimated fair value classified as Level 2.
Federal funds purchased and securities sold under agreements to repurchase	Carrying value is a reasonable estimate of fair value based on the short-term nature of the instruments.	Estimated fair value classified as Level 1.
Other borrowings (Line of Credit)	Carrying value is a reasonable estimate of fair value based on the short-term nature of the instruments.	Estimated fair value classified as Level 1.
Long-term debt	Fair value is estimated using discounted cash flows based on current lending rates for similar long-term debt instruments with similar terms and remaining time to maturity.	Carried at historical cost. Estimated fair value classified as Level 2.

The following table presents the levels of the fair value hierarchy for the Company's assets and liabilities measured at fair value on a recurring basis.

(in thousands)	Fair Value at June 30, 2018	Level 1	Level 2	Level 3
Assets:				
Investment securities available for sale				
Mortgage backed securities:				
Residential	$115,848	$ —	$115,848	$—
Commercial	30,354	—	30,354	—
Municipal bonds	361,799	—	361,799	—
Collateralized mortgage obligations:				
Residential	168,519	—	168,519	—
Commercial	111,623	—	111,623	—
Corporate debt securities	21,478	—	21,478	—
U.S. Treasury securities	10,438	—	10,438	—
Agency debentures	9,362	—	9,362	—
Single family mortgage servicing rights	245,744	—	—	245,744
Single family loans held for sale	527,088	—	525,265	1,823
Single family loans held for investment	4,187	—	—	4,187
Derivatives				
Eurodollar futures	78	78	—	—
Forward sale commitments	2,224	—	2,224	—
Interest rate swaptions	79	—	79	—
Interest rate lock and purchase loan commitments	16,972	—	—	16,972
Interest rate swaps	9,609	—	9,609	—
Total assets	$1,635,402	$ 78	$1,366,598	$268,726
Liabilities:				
Derivatives				
Forward sale commitments	$3,134	$ —	$3,134	$—
Interest rate lock and purchase loan commitments	106	—	—	106
Interest rate swaps	35,063	—	35,063	—
Total liabilities	$38,303	$ —	$38,197	$106

(in thousands)	Fair Value at December 31, 2017	Level 1	Level 2	Level 3
Assets:				
Investment securities available for sale				
Mortgage backed securities:				
Residential	$130,090	$ —	$130,090	$—
Commercial	23,694	—	23,694	—
Municipal bonds	388,452	—	388,452	—
Collateralized mortgage obligations:				
Residential	160,424	—	160,424	—
Commercial	98,569	—	98,569	—
Corporate debt securities	24,737	—	24,737	—
U.S. Treasury securities	10,652	—	10,652	—
Agency debentures	9,650		9,650	—
Single family mortgage servicing rights	258,560	—	—	258,560
Single family loans held for sale	577,313	—	575,977	1,336
Single family loans held for investment	5,477	—	—	5,477
Derivatives				
Forward sale commitments	1,311	—	1,311	—
Interest rate lock and purchase loan commitments	12,950	—	—	12,950
Interest rate swaps	12,172	—	12,172	—
Total assets	$1,714,051	$ —	$1,435,728	$278,323
Liabilities:				
Derivatives				
Eurodollar futures	$101	$ 101	$—	$—
Forward sale commitments	1,445	—	1,445	—
Interest rate lock and purchase loan commitments	25	—	—	25
Interest rate swaps	23,654	—	23,654	—
Total liabilities	$25,225	$ 101	$25,099	$25

There were no transfers between levels of the fair value hierarchy during the three and six months ended June 30, 2018 and 2017.

Level 3 Recurring Fair Value Measurements

The Company's Level 3 recurring fair value measurements consist of single family MSRs, single family loans held for investment where fair value option was elected, certain single family loans held for sale, and interest rate lock and purchase loan commitments, which are accounted for as derivatives. For information regarding fair value changes and activity for single family MSRs during the three and six months ended June 30, 2018 and 2017, see Note 6, *Mortgage Banking Operations* of this Form 10-Q.

The Company transferred certain loans from held for sale to held for investment. These loans were originated as held for sale loans where the Company had elected fair value option. The Company determined these loans to be level 3 recurring assets as the valuation technique included a significant unobservable input. The total amount of held for investment loans where fair value option election was made was $4.2 million at June 30, 2018.

The following information presents significant Level 3 unobservable inputs used to measure fair value of single family loans held for investment where fair value option was elected.

(dollars in thousands)	At June 30, 2018					
	Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Loans held for investment, fair value option	$4,187	Income approach	Implied spread to benchmark interest rate curve	3.43%	5.21%	3.98%

(dollars in thousands)	At December 31, 2017					
	Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Loans held for investment, fair value option	$5,477	Income approach	Implied spread to benchmark interest rate curve	3.61%	4.96%	4.10%

The following information presents significant Level 3 unobservable inputs used to measure fair value of certain single family loans held for sale where fair value option was elected.

(dollars in thousands)	At June 30, 2018					
	Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Loans held for sale, fair value option	$1,823	Income approach	Implied spread to benchmark interest rate curve	—%	5.33%	4.73%
			Market price movement from comparable bond	(0.37)%	(0.24)%	(0.30)%

(dollars in thousands)	At December 31, 2017					
	Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Loans held for sale, fair value option	$1,336	Income approach	Implied spread to benchmark interest rate curve	3.93%	3.93%	3.93%
			Market price movement from comparable bond	(0.38)%	(0.10)%	(0.24)%

The following table presents fair value changes and activity for Level 3 interest rate lock and purchase loan commitments.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2018	2017	2018	2017
Beginning balance, net	$16,676	$27,136	$12,925	$19,219
Total realized/unrealized gains	28,566	34,127	51,080	69,586
Settlements	(28,376)	(38,980)	(47,139)	(66,522)
Ending balance, net	$16,866	$22,283	$16,866	$22,283

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The following tables present fair value changes and activity for Level 3 loans held for sale and loans held for investment.

(in thousands)	Three Months Ended June 30, 2018					
	Beginning balance	Additions	Transfers	Payoffs/Sales	Change in mark to market	Ending balance
Loans held for sale	$ 3,326	$ 556	$ —	$ (1,997)	$ (62)	$ 1,823
Loans held for investment	5,304	—	—	(1,114)	(3)	4,187

(in thousands)	Three Months Ended June 30, 2017					
	Beginning balance	Additions	Transfers	Payoffs/Sales	Change in mark to market	Ending balance
Loans held for sale	$ 40,331	$ 197	$ 13,755	$ (25,884)	$ 860	$ 29,259
Loans held for investment	19,042	—	(13,575)	(479)	146	5,134

(in thousands)	Six Months Ended June 30, 2018					
	Beginning balance	Additions	Transfers	Payoffs/Sales	Change in mark to market	Ending balance
Loans held for sale	1,336	2,601	—	(1,997)	(117)	1,823
Loans held for investment	5,477	—	—	(1,114)	(176)	4,187

(in thousands)	Six Months Ended June 30, 2017					
	Beginning balance	Additions	Transfers	Payoffs/Sales	Change in mark to market	Ending balance
Loans held for sale	41,810	2,996	13,066	(29,110)	497	29,259
Loans held for investment	17,988	—	(12,369)	(479)	(6)	5,134

The following information presents significant Level 3 unobservable inputs used to measure fair value of interest rate lock and purchase loan commitments.

(dollars in thousands)	At June 30, 2018					
	Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average

Interest rate lock and purchase loan commitments, net	$16,866	Income approach	Fall-out factor	0.40%	61.01%	17.01%
			Value of servicing	0.68%	1.64%	1.05%

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(dollars in thousands)	At December 31, 2017					
	Fair Value	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
Interest rate lock and purchase loan commitments, net	$12,925	Income approach	Fall-out factor	0.00%	58.38%	12.05%
			Value of servicing	0.69%	1.73%	1.09%

Nonrecurring Fair Value Measurements

Certain assets held by the Company are not included in the tables above, but are measured at fair value on a nonrecurring basis. These assets include certain loans held for investment and other real estate owned that are carried at the lower of cost or fair value of the underlying collateral, less the estimated cost to sell. The estimated fair values of real estate collateral are generally based on internal evaluations and appraisals of such collateral, which use the market approach and income approach methodologies. All impaired loans are subject to an internal evaluation completed quarterly by management as part of the allowance process.

The fair value of commercial properties are generally based on third-party appraisals that consider recent sales of comparable properties, including their income-generating characteristics, adjusted (generally based on unobservable inputs) to reflect the general assumptions that a market participant would make when analyzing the property for purchase. The Company uses a fair value of collateral technique to apply adjustments to the appraisal value of certain commercial loans held for investment that are collateralized by real estate. During the six months ended June 30, 2018, the Company recorded an adjustment of 8.0% to the appraisal values of certain commercial loans held for investment that are collateralized by real estate and recorded no adjustments during the three months ended June 30, 2018. During the three and six months ended June 30, 2017, the Company recorded an adjustment of 7.10% to the appraisal values of certain commercial loans held for investment that are collateralized by real estate.

The Company uses a fair value of collateral technique to apply adjustments to the stated value of certain commercial loans held for investment that are not collateralized by real estate. During the three and six months ended June 30, 2018, the Company applied a range of stated value adjustments of 25.0% to 100.0%, with a weighted average of 60.0%. During the three months ended June 30, 2017, the Company applied a range of stated value adjustments of 0.0% to 42.6%, with a weighted average of 42.3%. During the six months ended June 30, 2017, the Company applied a range of stated value adjustments of 0.0% to 100.0%, with a weighted average of 41.3%. During the three and six months ended June 30, 2018 and 2017, the Company did not apply any adjustment to the appraisal value of OREO.

Residential properties are generally based on unadjusted third-party appraisals. Factors considered in determining the fair value include geographic sales trends, the value of comparable surrounding properties as well as the condition of the property.

These adjustments include management assumptions that are based on the type of collateral dependent loan and may increase or decrease an appraised value. Management adjustments vary significantly depending on the location, physical characteristics and income producing potential of each individual property. The quality and volume of market information available at the time of the appraisal can vary from period-to-period and cause significant changes to the nature and magnitude of the unobservable inputs used. Given these variations, changes in these unobservable inputs are generally not a reliable indicator for how fair value will increase or decrease from period to period.

The following tables present assets that had changes in their recorded fair value during the three and six months ended June 30, 2018 and 2017 and assets held at the end of the respective reporting period.

At or for the Three Months Ended June 30, 2018

(in thousands)	Fair Value of Assets Held at June 30, 2018	Level 1	Level 2	Level 3	Total Gains (Losses)
Loans held for investment[1]	$1,341	$ —	$ —	$1,341	$ (7)

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(in thousands)	At or for the Three Months Ended June 30, 2017				
	Fair Value of Assets Held at June 30, 2017	Level 1	Level 2	Level 3	Total Gains (Losses)
Loans held for investment[1]	$ 2,003	$ —	$ —	$ 2,003	$ 162

(in thousands)	At or for the Six Months Ended June 30, 2018				
	Fair Value of Assets Held at June 30, 2018	Level 1	Level 2	Level 3	Total Gains (Losses)
Loans held for investment[1]	$ 1,341	$ —	$ —	$ 1,341	$ (144)

(in thousands)	At or for the Six Months Ended June 30, 2017				
	Fair Value of Assets Held at June 30, 2017	Level 1	Level 2	Level 3	Total Gains (Losses)
Loans held for investment[1]	$ 2,003	$ —	$ —	$ 2,003	$ 140

(1) Represents the carrying value of loans for which adjustments are based on the fair value of the collateral.

Fair Value of Financial Instruments

The following presents the carrying value, estimated fair value and the levels of the fair value hierarchy for the Company's financial instruments other than assets and liabilities measured at fair value on a recurring basis.

(in thousands)	At June 30, 2018 Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$176,218	$176,218	$176,218	$—	$ —
Investment securities held to maturity	78,035	76,783	—	76,783	—
Loans held for investment	4,879,123	4,855,496	—	—	4,855,496
Loans held for sale – transferred from held for investment	1,517	1,517	—	—	1,517
Loans held for sale – multifamily and other	39,909	39,909	—	39,909	—
Mortgage servicing rights – multifamily	26,461	29,006	—	—	29,006
Federal Home Loan Bank stock	48,157	48,157	—	48,157	—
Liabilities:					
Time deposits	$1,396,082	$1,388,422	$—	$1,388,422	$ —
Federal Home Loan Bank advances	1,008,613	1,010,460	—	1,010,460	—
Other borrowings	30,007	30,007	30,007	—	—
Long-term debt	125,368	107,418	—	107,418	—

(in thousands)	At December 31, 2017 Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$72,718	$72,718	$72,718	$—	$ —
Investment securities held to maturity	58,036	58,128	—	58,128	—
Loans held for investment	4,500,989	4,497,884	—	—	4,497,884
Loans held for sale – multifamily and other	33,589	33,589	—	33,589	—
Mortgage servicing rights – multifamily	26,093	28,362	—	—	28,362
Federal Home Loan Bank stock	46,639	46,639	—	46,639	—
Liabilities:					
Time deposits [(1)]	$1,190,689	$1,186,126	$—	$1,186,126	$ —
Federal Home Loan Bank advances	979,201	981,441	—	981,441	—
Long-term debt	125,274	108,530	—	108,530	—

(1) Prior year presentation has changed due to the January 1, 2018 adoption of ASU 2016-01.

NOTE 9–EARNINGS PER SHARE:

The following table summarizes the calculation of earnings per share.

(in thousands, except share and per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$7,099	$ 11,209	$12,965	$ 20,192
Weighted average shares:				
Basic weighted-average number of common shares outstanding	26,976,892	26,866,230	26,952,178	26,843,813
Dilutive effect of outstanding common stock equivalents [(1)]	179,437	218,378	205,486	227,215
Diluted weighted-average number of common stock outstanding	27,156,329	27,084,608	27,157,664	27,071,028
Earnings per share:				
Basic earnings per share	$0.26	$ 0.42	$0.48	$ 0.75
Diluted earnings per share	$0.26	$ 0.41	$0.48	$ 0.75

(1) Excluded from the computation of diluted earnings per share (due to their antidilutive effect) for the three and six months ended June 30, 2018 and 2017 were certain stock options and unvested restricted stock issued to key senior management personnel and directors of the Company. The aggregate number of common stock equivalents related to such options and unvested restricted shares, which could potentially be dilutive in future periods, was 9,259 at June 30, 2018 and 6,417 at June 30, 2017.

NOTE 10–BUSINESS SEGMENTS:

The Company's business segments are determined based on the products and services provided, as well as the nature of the related business activities and reflect the manner in which financial information is currently evaluated by management. The Company organizes the segments into two lines of business: Commercial and Consumer Banking segment and Mortgage Banking segment.

A description of the Company's business segments and the products and services that they provide is as follows.

Commercial and Consumer Banking provides diversified financial products and services to our commercial and consumer customers through bank branches, ATMs, and online, mobile and telephone banking. These products and services include deposit products; residential, consumer, business and agricultural portfolio loans; non-deposit investment products; insurance products, and cash management services. We originate construction loans, bridge loans and permanent loans for our portfolio primarily on single family residences, and on office, retail, industrial and multifamily properties. We originate multifamily real estate loans through our Fannie Mae DUS® business, and after origination those loans are sold to or securitized by Fannie Mae, while the Company generally retains the servicing rights. In addition, through the HomeStreet Commercial Capital division of HomeStreet Bank, we originate permanent commercial real estate loans primarily up to $15 million in size, a portion of which we intend to pool and sell into the secondary market. As a part of the Commercial Lending division, we also have a team that specializes in SBA lending. This segment also reflects the results for the management of the Company's portfolio of investment securities.

Mortgage Banking originates single family residential mortgage loans for sale in the secondary markets and performs mortgage servicing on a substantial portion of such loans. The majority of our mortgage loans are sold to or securitized by Fannie Mae, Freddie Mac or Ginnie Mae, while we retain the right to service these loans. We have become a rated originator and servicer of jumbo loans, allowing us to sell these loans to other securitizers. Additionally, we purchase loans from WMS Series LLC through a correspondent arrangement with that company. We also sell loans on a servicing-released and servicing-retained basis to securitizers and correspondent lenders. A small percentage of our loans are brokered to other lenders. On occasion, we may sell a portion of our MSR portfolio. We

manage the loan funding and the interest rate risk associated with the secondary market loan sales and the retained single family mortgage servicing rights within this business segment.

Financial highlights by operating segment were as follows.

(in thousands)	At or for the Three Months Ended June 30, 2018		
	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income [1]	$3,258	$47,745	$51,003
Provision for credit losses	—	1,000	1,000
Noninterest income	60,984	8,405	69,389
Noninterest expense	71,279	39,286	110,565
(Loss) income before income taxes	(7,037)	15,864	8,827
Income tax (benefit) expense	(2,236)	3,964	1,728
Net (loss) income	$(4,801)	$11,900	$7,099
Total assets	$805,777	$6,358,100	$7,163,877

(in thousands)	At or for the Three Months Ended June 30, 2017		
	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income [1]	$4,420	$42,448	$46,868
Provision for credit losses	—	500	500
Noninterest income	72,732	8,276	81,008
Noninterest expense	74,613	36,631	111,244
Income before income taxes	2,539	13,593	16,132
Income tax expense	776	4,147	4,923
Net income	$1,763	$9,446	$11,209
Total assets	$992,668	$5,593,889	$6,586,557

(in thousands)	At or for the Six Months Ended June 30, 2018		
	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income [1]	$6,270	$93,193	$99,463
Provision for credit losses	—	1,750	1,750
Noninterest income	114,719	15,501	130,220
Noninterest expense	133,776	77,558	211,334
(Loss) income before income taxes	(12,787)	29,386	16,599
Income tax (benefit) expense	(3,646)	7,280	3,634
Net (loss) income	$(9,141)	$22,106	$12,965
Total assets	$805,777	$6,358,100	$7,163,877

(in thousands)	At or for the Six Months Ended June 30, 2017		
	Mortgage Banking	Commercial and Consumer Banking	Total
Condensed income statement:			
Net interest income [(1)]	$9,167	$83,352	$92,519
Provision for credit losses	—	500	500
Noninterest income	137,768	17,701	155,469
Noninterest expense	145,017	73,101	218,118
Income before income taxes	1,918	27,452	29,370
Income tax expense	464	8,714	9,178
Net income	$1,454	$18,738	$20,192
Total assets	$992,668	$5,593,889	$6,586,557

(1) Net interest income is the aggregation of interest earned on assets, interest expense charged by treasury to fund the assets, interest paid on liabilities, and interest income provided by treasury for investing the liabilities.

NOTE 11–ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):

The following table shows changes in accumulated other comprehensive income (loss) from unrealized gain (loss) on available-for-sale securities, net of tax.

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Beginning balance	$(17,298)	$(8,486)	$(7,122)	$(10,412)
Other comprehensive (loss) income before reclassifications	(2,412)	3,431	(12,412)	5,361
Amounts reclassified from accumulated other comprehensive income (loss)	(12)	(358)	(188)	(362)
Net current-period other comprehensive (loss) income	(2,424)	3,073	(12,600)	4,999
Ending balance	$(19,722)	$(5,413)	$(19,722)	$(5,413)

The following table shows the affected line items in the consolidated statements of operations from reclassifications of unrealized gain (loss) on available-for-sale securities from accumulated other comprehensive income (loss).

Affected Line Item in the Consolidated Statements of Operations	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)			
	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2018	2017	2018	2017
Gain on sale of investment securities available for sale	$16	$551	$238	$557
Income tax expense	4	193	50	195

Total, net of tax	$12	$358	$188	$362

NOTE 12–REVENUE:

On January 1, 2018, the Company adopted ASU No. 2014-09 *Revenue from Contracts with Customers ("Topic 606")*. We elected to implement Topic 606 using the modified retrospective application, with the cumulative effect recorded as an adjustment to retained earnings at January 31, 2018. Due to immateriality, we had no cumulative effect to record. Since net

interest income on financial assets and liabilities is excluded from this guidance, a significant majority of our revenues are not subject to the new guidance.

Our revenue streams that fall within the scope of Topic 606 are presented within noninterest income and are, in general, recognized as revenue as we satisfy our obligation to the customer. Most of the Company's contracts that fall within the scope of this guidance are contracts with customers that are cancelable by either party without penalty and are short-termed in nature. These revenues include depositor and other retail and business banking fees, commission income, credit card fees and sales of other real estate owned. For the six months ended June 30, 2018, in scope revenue streams were approximately 2.7% of our total revenues. As this standard is immaterial to our consolidated financial statements, the Company has omitted certain disclosures in ASU 2014-09, including the disaggregation of revenue table. In-scope noninterest revenue streams are discussed below.

Depositor and other retail and business banking fees
Depositor and other retail banking fees consist of monthly service fees, check orders, and other deposit account related fees. The Company’s performance obligation for these fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided.
Commission Income
Commission income primarily consists of revenue received on insurance policies and monthly investment management fees earned where the Company has acted as an intermediary between customers and the insurance carriers or investment advisers.
Under Topic 606, the commissions received at the inception of the policy should be deferred and recognized over the course of the policy. The company’s performance obligation for commissions is generally satisfied, and the related revenue generally recognized, over the course of the policy or over the period in which the services are provided, generally monthly.
Credit Card Fees
The Company offers credit cards to its customers through a third party and earns a fee on each transaction and a fee for each new account activation on a net basis. Revenue is recognized on a one-month lag when cash is received for these fees which does not vary materially from recognizing revenue over the period the services are performed.
Sale of Real Estate Owned
A gain or loss, the difference between the cost basis of the property and its sale price, on other real estate owned is recognized when the performance obligation is met, which is at the time the property title is transferred to the buyer.

NOTE 13–RESTRUCTURING:

In 2017, we completed restructuring plans in the Company's Mortgage Banking segment to reduce operating costs and improve efficiency.
In June 2018, the Company implemented another restructuring plan in the Mortgage Banking segment to further reduce operating costs and improve profitability. In the second quarter of 2018, we recorded a total restructuring charge of $6.9 million. We estimate we will record an additional $1.7 million in restructuring charges related to this event in the third quarter of 2018.
Restructuring charges consist of facility-related costs and severance costs and are included in the occupancy and the salaries and related costs line items on our consolidated statement of operations for the applicable period.
The following tables summarize the restructuring charges, the restructuring costs paid or settled during the first three and six months of 2018 and the Company's net remaining liability balance at June 30, 2018 and 2017.

At and for the three months ended June 30	2018			2017		
	Facilities-related costs	Personnel-related costs	Total	Facilities-related costs	Personnel-related costs	Total
(in thousands)						
Beginning balance	$ 720	$ —	$ 720	$ —	$ —	$ —
Restructuring costs	6,454	439	6,893	—	104	104
Costs paid or otherwise settled	(2,965)	—	(2,965)	—	(33)	(33)
Ending balance	$ 4,209	$ 439	$ 4,648	$ —	$ 71	$ 71

At and for the six months ended June 30	2018			2017		
	Facilities-related costs	Personnel-related costs	Total	Facilities-related costs	Personnel-related costs	Total
(in thousands)						
Beginning balance	$ 1,386	$ —	$ 1,386	$ —	$ —	$ —
Restructuring costs	6,163	439	6,602	—	104	104
Costs paid or otherwise settled	(3,340)	—	(3,340)	—	(33)	(33)
Ending balance	$ 4,209	$ 439	$ 4,648	$ —	$ 71	$ 71

NOTE 14–SUBSEQUENT EVENTS:

The Company has evaluated subsequent events through the time of filing this Quarterly Report on Form 10-Q and has concluded that there are no significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on the consolidated financial statements.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Consolidated Financial Statements and Notes presented elsewhere in this report and in HomeStreet, Inc.'s 2017 Annual Report on Form 10-K.

FORWARD-LOOKING STATEMENTS

The following discussion contains certain forward-looking statements, which are statements of expectations and not statements of historical fact. Many forward-looking statements can be identified as using words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "should," "will" and "would" and similar expres negative of these terms). Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond the control of the Company and are subject to risks and uncertainties, including, but not limited to, those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly in Item 1A of Part II, "Risk Factors," that could cause actual results to differ significantly from those projected. Although we believe that expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We undertake no obligation to, and expressly disclaim any such obligation to update, or clarify any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q to reflect changed assumptions, the occurrence of anticipated or unanticipated events, new information or changes to future results over time of otherwise, except as required by law. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this Form 10-Q.

Except as otherwise noted, references to "we," "our," "us" or "the Company" refer to HomeStreet, Inc. and its subsidiaries that are consolidated for financial reporting purposes. Statements of knowledge, intention or belief reflect those characteristics of our executive management team based on current facts and circumstances.

You may review a copy of this Quarterly Report on Form 10-Q, including exhibits and any schedule filed therewith, and obtain copies of such materials at prescribed rates, at the Securities and Exchange Commission's Public Reference Room at, 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains a website (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding registrants, such as HomeStreet, Inc., that file electronically with the Securities and Exchange Commission. Copies of our Securities Exchange Act reports also are available from our investor relations website, http://ir.homestreet.com. Information contained in or linked from our websites is not incorporated into and does not constitute a part of this report.

Summary Financial Data

	At or for the Three Months Ended					At or for the Six Months Ended	
(dollars in thousands, except share data)	June 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	June 30, 2018	June 30, 2017
Income statement data (for the period ended):							
Net interest income	$51,003	$48,460	$51,079	$50,840	$46,868	$99,463	$92,519
Provision for credit losses	1,000	750	—	250	500	1,750	500
Noninterest income	69,389	60,831	72,801	83,884	81,008	130,220	155,469
Noninterest expense	110,565	100,769	106,838	114,697	111,244	211,334	218,118
Income before income taxes	8,827	7,772	17,042	19,777	16,132	16,599	29,370
Income tax expense (benefit)	1,728	1,906	(17,873)	5,938	4,923	3,634	9,178
Net income	$7,099	$5,866	$34,915	$13,839	$11,209	$12,965	$20,192
Basic income per share	$0.26	$0.22	$1.30	$0.51	$0.42	$0.48	$0.75
Diluted income per share	$0.26	$0.22	$1.29	$0.51	$0.41	$0.48	$0.75
Common shares outstanding	26,978,229	26,972,074	26,888,288	26,884,402	26,874,871	26,978,229	26,874,871
Weighted average number of shares outstanding:							
Basic	26,976,892	26,927,464	26,887,611	26,883,392	26,866,230	26,952,178	26,843,813
Diluted	27,156,329	27,159,000	27,136,977	27,089,040	27,084,608	27,157,664	27,071,028
Shareholders' equity per share	$26.19	$25.99	$26.20	$24.98	$24.40	$26.19	$24.40
Financial position (at period end):							
Cash and cash equivalents	$176,218	$66,289	$72,718	$55,050	$54,447	$176,218	$54,447
Investment securities	907,457	915,483	904,304	919,459	936,522	907,457	936,522
Loans held for sale	568,514	500,533	610,902	851,126	784,556	568,514	784,556
Loans held for investment, net	4,883,310	4,758,261	4,506,466	4,313,225	4,156,424	4,883,310	4,156,424
Loan servicing rights	272,205	320,105	284,653	268,072	258,222	272,205	258,222
Other real estate owned	752	297	664	3,704	4,597	752	4,597
Total assets	7,163,877	6,924,056	6,742,041	6,796,346	6,586,557	7,163,877	6,586,557
Deposits	5,120,285	5,048,996	4,760,952	4,670,486	4,747,771	5,120,285	4,747,771
Federal Home Loan Bank advances	1,008,613	851,657	979,201	1,135,245	867,290	1,008,613	867,290
Federal funds purchased and securities sold under agreements to repurchase	—	25,000	—	—	—	—	—
Shareholders' equity	$706,459	$700,963	$704,380	$671,469	$655,841	$706,459	$655,841
Financial position (averages):							
Investment securities	$911,678	$915,562	$929,995	$925,545	$1,089,552	$913,609	$1,121,224
Loans held for investment	4,836,644	4,641,980	4,429,777	4,242,795	4,119,825	4,739,850	4,017,748
Total interest-earning assets	6,369,673	6,093,430	6,269,600	6,098,054	5,837,917	6,232,315	5,810,143
Total interest-bearing deposits	4,046,297	3,834,191	3,581,911	3,622,606	3,652,036	3,940,829	3,574,543
Federal Home Loan Bank advances	943,539	858,451	1,264,893	1,034,634	872,019	901,230	923,679
Federal funds purchased and securities sold under agreements to repurchase	5,253	7,333	8,828	272	4,804	6,287	2,901
Total interest-bearing liabilities	5,121,085	4,825,265	4,980,926	4,783,142	4,654,064	4,973,992	4,626,306
Shareholders’ equity	$751,593	$717,742	$701,849	$683,186	$668,377	$734,761	$658,961

Summary Financial Data (continued)

(dollars in thousands, except share data)	At or for the Three Months Ended					At or for the Six Months Ended	
	June 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	June 30, 2018	June 30, 2017
Financial performance:							
Return on average shareholders' equity [1]	3.78 %	3.27 %	19.90 %	8.10 %	6.71 %	3.53 %	6.13 %
Return on average assets	0.40 %	0.35 %	2.03 %	0.83 %	0.70 %	0.37 %	0.63 %
Net interest margin [2]	3.25 %	3.25 %	3.33 %	3.40 %	3.29 %	3.25 %	3.26 %
Efficiency ratio [3]	91.84 %	92.20 %	86.24 %	85.13 %	86.99 %	92.01 %	87.96 %
Asset quality:							
Allowance for credit losses	$40,982	$40,446	$39,116	$38,195	$37,470	$40,982	$37,470
Allowance for loan losses/total loans [4]	0.80 %	0.81 %	0.83 %	0.85 %	0.86 %	0.80 %	0.86 %
Allowance for loan losses/nonaccrual loans	409.97 %	359.32 %	251.63 %	245.02 %	233.50 %	409.97 %	233.50 %
Total nonaccrual loans [5][6]	$9,630	$10,879	$15,041	$15,123	$15,476	$9,630	$15,476
Nonaccrual loans/total loans	0.20 %	0.23 %	0.33 %	0.35 %	0.37 %	0.20 %	0.37 %
Other real estate owned	$751	$297	$664	$3,704	$4,597	$751	$4,597
Total nonperforming assets [6]	$10,381	$11,176	$15,705	$18,827	$20,073	$10,381	$20,073
Nonperforming assets/total assets	0.14 %	0.16 %	0.23 %	0.28 %	0.30 %	0.14 %	0.30 %
Net (recoveries) charge-offs	$464	$(580)	$(921)	$(475)	$(928)	$(116)	$(1,706)
Regulatory capital ratios for the Bank:							
Tier 1 leverage capital (to average assets)	9.72 %	9.58 %	9.67 %	9.86 %	10.13 %	9.72 %	10.13 %
Common equity tier 1 risk-based capital (to risk-weighted assets)	12.69 %	12.30 %	13.22 %	12.88 %	13.23 %	12.69 %	13.23 %
Tier 1 risk-based capital (to risk-weighted assets)	12.69 %	12.30 %	13.22 %	12.88 %	13.23 %	12.69 %	13.23 %
Total risk-based capital (to risk-weighted assets)	13.52 %	13.09 %	14.02 %	13.65 %	14.01 %	13.52 %	14.01 %
Regulatory capital ratios for the Company:							
Tier 1 leverage capital (to average assets)	9.18 %	9.08 %	9.12 %	9.33 %	9.55 %	9.18 %	9.55 %
Tier 1 common equity risk-based capital (to risk-weighted assets)	10.48 %	9.26 %	9.86 %	9.77 %	10.01 %	10.48 %	10.01 %
Tier 1 risk-based capital (to risk-weighted assets)	11.56 %	10.28 %	10.92 %	10.81 %	11.10 %	11.56 %	11.10 %
Total risk-based capital (to risk-weighted assets)	12.38 %	10.97 %	11.61 %	11.48 %	11.79 %	12.38 %	11.79 %

(1) Net earnings available to common shareholders divided by average shareholders' equity.
(2) Net interest income divided by total average interest-earning assets on a tax equivalent basis.
(3) Noninterest expense divided by total revenue (net interest income and noninterest income).
(4) Includes loans acquired with bank acquisitions. Excluding acquired loans, allowance for loan losses /total loans was 0.85%, 0.87%, 0.90%, 0.93% and 0.95% at June 30, 2018, March 31, 2018, December 31, 2017, September 30, 2017 and June 30, 2017, respectively.
(5) Generally, loans are placed on nonaccrual status when they are 90 or more days past due, unless payment is insured by the FHA or guaranteed by the VA.
(6) Includes $1.4 million, $1.7 million, $1.9 million, $1.4 million and $732 thousand of nonperforming loans guaranteed by the SBA at June 30, 2018, March 31, 2018, December 31, 2017, September 30, 2017 and June 30, 2017, respectively.

(in thousands)	At or for the Three Months Ended June 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017
SUPPLEMENTAL DATA:					
Loans serviced for others:					
Single family	$ 19,073,176	$ 23,219,576	$ 22,631,147	$ 21,892,253	$ 21,104,608
Multifamily DUS® (1)	1,357,929	1,323,937	1,311,399	1,213,459	1,135,722
Other	82,083	81,436	79,797	78,674	75,336
Total loans serviced for others	$ 20,513,188	$ 24,624,949	$ 24,022,343	$ 23,184,386	$ 22,315,666

(1) Fannie Mae Multifamily Delegated Underwriting and Servicing Program (“DUS®) is a registered trademark of Fannie Mae.

About Us

HomeStreet is a diversified financial services company founded in 1921, headquartered in Seattle, Washington, serving customers primarily on the West Coast of the United States, including Hawaii. We are principally engaged in commercial and consumer banking and real estate lending, including commercial real estate and single family mortgage banking operations.
HomeStreet, Inc. is a bank holding company that has elected to be treated as a financial holding company. Our primary subsidiaries are HomeStreet Bank and HomeStreet Capital Corporation ("HSC"). We also sell insurance products and services for consumer clients under the name HomeStreet Insurance.
HomeStreet Bank is a Washington state-chartered commercial bank providing commercial and consumer loans, mortgage loans, deposit products, other banking services, non-deposit investment products, private banking and cash management services. Our loan products include commercial business loans and agriculture loans, consumer loans, single family residential mortgages, loans secured by commercial real estate and construction loans for residential and commercial real estate projects. We also have partial ownership in WMS Series LLC (dba Penrith Home Loans), an affiliated business arrangement with various owners of Windermere Real Estate Company franchises, which operates a home loan business from select Windermere Real Estate Offices and other locations.
HSC, a Washington corporation, originates, sells and services multifamily mortgage loans under the Fannie Mae Delegated Underwriting and Servicing Program ("DUS®")(1) in conjunction with HomeStreet Bank.
We generate revenue by earning net interest income and noninterest income. Net interest income is primarily the interest income we earn on loans and investment securities, less the interest we pay on deposits and other borrowings. We also earn noninterest income from the origination, sale and servicing of loans and from fees earned on deposit services and investment and insurance sales.
At June 30, 2018, we had total assets of $7.16 billion, net loans held for investment of $4.88 billion, deposits of $5.12 billion and shareholders' equity of $706.5 million.
During the second quarter of 2018, we continued our focus on measured growth in our Commercial and Consumer Banking segment and increased efficiency in our overall operations. In our Commercial and Consumer Banking segment, we continued our strategy of diversifying HomeStreet's aggregate earnings by expanding the business, improving the quality of our deposits, and bolstering our processing, compliance and risk management capabilities. As of June 30, 2018, we had 30 retail branches in the Puget Sound area, 16 retail branches in Southern California and four retail branches in both Hawaii and Oregon. We believe our continued branch expansions promotes convenience for our customers, and along with the growth of commercial and consumer account deposits at our existing branches, help build our market share. Meanwhile, in our Mortgage Banking segment, we have been facing a continued reduction in single family loan origination volume due to the current interest rate environment and a lack of housing inventory in our primary markets.
We have been able to maintain a significant market share in mortgage banking in our Pacific Northwest markets, and expect mortgage banking to remain an important part of our overall strategy. However, the contraction in the total number of mortgage loans being originated in our markets has led us to focus on building an even more efficient operation, while retaining the ability to meet the origination and servicing needs of our mortgage lending customers. In June 2018, we announced the closure and consolidation of 20 single family home lending centers, primarily in California and Arizona, with associated headcount reductions of 110 full-time equivalents, or approximately 8% of the segment's total headcount at March 31, 2018. We anticipate annualized pre-tax savings from this streamlining to be $11.4 million. Total estimated pre-tax restructuring costs of $9.7 million, of which $6.9 million was incurred in the second quarter of 2018, with an additional $1.7 million estimated to be incurred in the third quarter of 2018.
Although our business historically focused heavily on single family mortgage banking, we have invested significantly in the growth of our commercial and consumer banking business since our initial public offering in 2012, in part to offset the volatility of earnings typically experienced in residential mortgage banking operations. This has been important in reducing the impact of the downturn in single family mortgage originations in our principal markets in the past year. The downturn has been primarily driven by the scarcity of homes available for sale in our primary markets, creating challenges for customers looking for suitable housing at an affordable price, which, in turn has reduced the volume of purchase mortgages transacted in those markets. In addition, increases in mortgage interest

rates have reduced the market for originating refinance mortgage loans. The lower volume of loans overall originated in the market has also created significant price competition as the number of our competitors has not been meaningfully reduced, which in turn creates negative pressure on our mortgage banking profit margins.
The increased importance of our Commercial and Consumer Banking segment, along with the restructuring of our Mortgage Banking segment to reduce its cost structure to better align with market conditions, has helped to ease the volatility of our earnings.

[1] DUS® is a registered trademark of Fannie Mae

While HomeStreet has grown at a significant rate in the five years since our initial public offering, management anticipates that our growth rate as a percentage of our assets and income going forward will be lower than prior periods, due in part to the increased scale of our business and the competitive state of our markets.
As part of our ongoing balance sheet and capital management, HomeStreet executed a definitive agreement to sell a portion of our single family mortgage servicing rights. The transaction provides for the sale of the rights to service approximately $4.90 billion in total unpaid principal balance of single family mortgage loans serviced for both Fannie Mae and Freddie Mac, which represents approximately 21% of HomeStreet's total single family mortgage loans serviced for others as of March 31, 2018. We also modified our loss sharing agreement with Fannie Mae related to our DUS® servicing that significantly lowered our consolidated risk-weighted assets. In addition to increasing regulatory capital ratios, these actions will provide additional regulatory capital to support the continued growth of our Commercial and Consumer Banking business and accelerate the diversification of the Company's net income.

Management's Overview ofSecond Quarter of 2018 Financial Performance

Results of Operations

Results for the second quarter of 2018 reflect the benefit of our investments in growth and diversification. We have continued to execute on our strategy of becoming a leading West Coast regional commercial bank through steady organic growth in our Commercial and Consumer Banking segment which resulted in an increase of loans held for investment of 2.6% in the quarter. At the same time, however, our mortgage business has continued to be impacted by both the low supply of houses in our primary markets and by higher interest rates.

For the three and six months ended June 30, 2018, net income was $7.1 million and $13.0 million, respectively, a decrease of $4.1 million or 36.7% and $7.2 million or 35.8% from $11.2 million and $20.2 million, respectively, for the three and six months ended June 30, 2017. The decreases were primarily due to a decrease in mortgage production in our Mortgage Banking segment driven by a lack of housing inventory and increased competition in our core markets and $6.9 million in restructuring expenses related to the streamlining of this segment in the second quarter of 2018.

As of June 30, 2018, we had 35 primary stand-alone home loan centers, six primary commercial loan centers and 62 retail deposit branches. We also have one stand-alone insurance office.

Consolidated Financial Performance

(in thousands, except per share data and ratios)	At or for the Three Months Ended June 30, 2018	2017	Percent Change	At or for the Six Months Ended June 30, 2018	2017	Percent Change
Selected statement of operations data						
Total net revenue [1]	$120,392	$127,876	(6)%	$229,683	$247,988	(7)%
Total noninterest expense	110,565	111,244	(1)%	211,334	218,118	(3)%
Provision for credit losses	1,000	500	100 %	1,750	500	250 %
Income tax expense	1,728	4,923	(65)%	3,634	9,178	(60)%
Net income	$7,099	$11,209	(37)%	$12,965	$20,192	(36)%
Financial performance						
Diluted income per share	$0.26	$0.41		$0.48	$0.75	
Return on average common shareholders' equity	3.78 %	6.71 %		3.53 %	6.13 %	
Return on average assets	0.40 %	0.70 %		0.37 %	0.63 %	
Net interest margin	3.25 %	3.29 %		3.25 %	3.26 %	

(1) Total net revenue is net interest income and noninterest income.

Commercial and Consumer Banking Segment Results

Commercial and Consumer Banking segment net income for the three and six months ended June 30, 2018 was $11.9 million and $22.1 million, respectively, compared to $9.4 million and $18.7 million, respectively, for the three and six months ended June 30, 2017. The increases were primarily due to an increase in net interest income from higher average balances and yields on interest-earning assets and a reduction in our effective tax rate, partially offset by higher cost of funds.

Commercial and Consumer Banking segment net interest income for the three and six months ended June 30, 2018 was $47.7 million and $93.2 million, compared to $42.4 million and $83.4 million for the three and six months ended June 30, 2017. The increases reflect higher average balances and yields on interest earning assets.

Our provision for credit losses were $1.0 million and $1.8 million in the three and six months ended June 30, 2018, respectively. The provision for credit losses were $500 thousand in both the three and six months ended June 30, 2017. Net recoveries were $116 thousand in the first six months of 2018 compared to net recoveries of $1.7 million in the first six months of 2017. Overall, the allowance for loan losses (which excludes the allowance for unfunded commitments) was 0.80% and 0.86% of loans held for investment at June 30, 2018 and June 30, 2017, respectively. Excluding loans acquired through business combinations, the allowance for loan losses was 0.85% of loans held for investment at June 30, 2018 compared to 0.95% at June 30, 2017. Nonperforming assets were $10.4 million, or 0.14% of total assets at June 30, 2018, compared to $20.1 million, or 0.30% of total assets at June 30, 2017.

Commercial and Consumer Banking segment noninterest expense was $39.3 million for the second quarter of 2018, an increase of $2.7 million, or 7.2%, from $36.6 million for the second quarter of 2017. For the six months ended June 30, 2018 segment noninterest expense was $77.6 million, an increase of 6.1% from $73.1 million for the six months ended June 30, 2017. The increases were primarily due to higher costs from the continued growth of our commercial real estate and commercial business lending units, our expanding branch banking network, and increased information system costs and FDIC assessments. For the six months ended June 30, 2018, we added four de novo retail deposit branches. From June 30, 2017, we decreased the segment's headcount by 3.5%, generally related to efficiencies derived in corporate support functions.

Mortgage Banking Segment Results

Mortgage Banking segment net loss for the three and six months ended June 30, 2018 was $4.8 million and $9.1 million, respectively, compared to net income of $1.8 million and $1.5 million, respectively, for the three and six months ended June 30, 2017. The decreases in earnings were primarily due to $6.9 million in restructuring charges in the second quarter of 2018, lower mortgage production and lower mortgage loan servicing income, partially offset by lower salary and related costs associated with headcount reductions from our 2017 and 2018 restructuring events, as well as decreased commissions and related costs on lower closed loan volume.

Mortgage Banking noninterest income for the three and six months ended June 30, 2018 was $61.0 million and $114.7 million, respectively, compared to $72.7 million and $137.8 million, respectively, for the three and six months ended June 30, 2017, primarily due to a 13.9% and 9.0% decrease in single family mortgage interest rate lock commitments, respectively. Decreased interest rate lock commitments were the result of both higher mortgage interest rates, which reduced the volume of refinance activity in the period and to a lesser extent the limited supply of housing in our markets, which reduced the volume of purchase mortgage activity in the period. We decreased our mortgage production personnel by 14.6% at June 30, 2018 compared to June 30, 2017, primarily due to our 2017 and 2018 restructurings in our Mortgage Banking segment.

Mortgage Banking noninterest expense for the three and six months ended June 30, 2018 was $71.3 million and $133.8 million, respectively, compared to $74.6 million and $145.0 million, respectively, for the three and six months

ended June 30, 2017, primarily due to decreased commissions, salary, and related costs on lower closed loan volume, as well as lower salary and related costs associated with headcount reductions from our 2017 and 2018 restructuring activities. These decreases were partially offset by $6.9 million in restructuring charges in the second quarter of 2018.

Regulatory Matters

Under the Basel III standards, the Company and Bank's Tier 1 leverage, common equity risk-based capital, Tier 1 risk-based capital and total risk-based capital ratios are as follows.

	At June 30, 2018			
	HomeStreet, Inc.		HomeStreet Bank	
(in thousands)	Ratio		Ratio	
Tier 1 leverage capital (to average assets)	9.18	%	9.72	%
Common equity Tier 1 risk-based capital (to risk-weighted assets)	10.48	%	12.69	%
Tier 1 risk-based capital (to risk-weighted assets)	11.56	%	12.69	%
Total risk-based capital (to risk-weighted assets)	12.38	%	13.52	%

	At December 31, 2017			
	HomeStreet, Inc.		HomeStreet Bank	
(in thousands)	Ratio		Ratio	
Tier 1 leverage capital (to average assets)	9.12	%	9.67	%
Common equity Tier 1 risk-based capital (to risk-weighted assets)	9.86	%	13.22	%
Tier 1 risk-based capital (to risk-weighted assets)	10.92	%	13.22	%
Total risk-based capital (to risk-weighted assets)	11.61	%	14.02	%

The Company and the Bank remain above current “well-capitalized” regulatory minimums.
In the second quarter of 2018, we modified our loss sharing agreement between our subsidiary HomeStreet Capital Corporation and Fannie Mae related to our DUS portfolio to move from a standard loss share method to a pari passu loss share method. Under the new agreement, the calculated off-balance sheet risk weighted assets are reduced by two-thirds of the amount under the previous agreement, which in turn improved the common equity tier 1 risk based capital ratio, the tier 1 risk based capital ratio, and the total risk based capital ratio for HomeStreet on a consolidated basis.

Critical Accounting Policies and Estimates

Our significant accounting policies are fundamental to understanding our results of operations and financial condition because they require that we use estimates and assumptions that may affect the value of our assets or liabilities and financial results. Certain of these policies are critical because they require management to make subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. These policies govern:

- Allowance for Loan and Lease Losses
- Fair Value of Financial Instruments
- Single Family Mortgage Servicing Rights ("MSRs")
- Other Real Estate Owned ("OREO")
- Income Taxes
- Business Combinations

These policies and estimates are described in further detail in Part II, Item 7- Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1, *Summary of Significant Accounting Policies,* within our 2017 Annual Report on Form 10-K.

Results of Operations

Average Balances and Rates

Average balances, together with the total dollar amounts of interest income and expense, on a tax equivalent basis related to such balances and the weighted average rates, were as follows.

	Three Months Ended June 30,					
	2018			2017		
(in thousands)	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets:						
Interest-earning assets: [1]						
Cash and cash equivalents	$87,898	$252	1.15 %	$87,249	$125	0.57 %
Investment securities	911,678	6,029	2.64 %	1,089,552	6,466	2.38 %
Loans held for sale	533,453	6,081	4.56 %	541,291	5,586	4.13 %
Loans held for investment	4,836,644	55,537	4.59 %	4,119,825	45,701	4.43 %
Total interest-earning assets	6,369,673	67,899	4.26 %	5,837,917	57,878	3.96 %
Noninterest-earning assets [2]	711,206			587,211		
Total assets	$7,080,879			$6,425,128		
Liabilities and shareholders' equity:						
Deposits:						
Interest-bearing demand accounts	$445,128	$430	0.39 %	$494,997	$502	0.41 %
Savings accounts	292,156	217	0.30 %	309,844	256	0.33 %
Money market accounts	1,926,662	4,064	0.85 %	1,551,328	1,917	0.50 %
Certificate accounts	1,382,351	4,999	1.45 %	1,295,867	3,303	1.03 %
Total interest-bearing deposits	4,046,297	9,710	0.96 %	3,652,036	5,978	0.66 %
Federal Home Loan Bank advances	943,539	4,782	2.03 %	872,019	2,368	1.09 %
Federal funds purchased and securities sold under agreements to repurchase	5,253	24	1.84 %	4,804	14	1.20 %
Other borrowings	659	7	4.40 %	—	—	— %
Long-term debt	125,337	1,662	5.32 %	125,205	1,514	4.86 %
Total interest-bearing liabilities	5,121,085	16,185	1.27 %	4,654,064	9,874	0.85 %
Noninterest-bearing liabilities	1,208,201			1,102,687		
Total liabilities	6,329,286			5,756,751		
Shareholders' equity	751,593			668,377		
Total liabilities and shareholders' equity	$7,080,879			$6,425,128		
Net interest income [3]		$51,714			$48,004	
Net interest spread			2.99 %			3.11 %
Impact of noninterest-bearing sources			0.26 %			0.18 %
Net interest margin			3.25 %			3.29 %

(1) The average balances of nonaccrual assets and related income, if any, are included in their respective categories.
(2) Includes loan balances that have been foreclosed and are now reclassified to OREO.
(3) Includes taxable-equivalent adjustments primarily related to tax-exempt income on certain loans and securities of $711 thousand and $1.1 million for the quarter ended June 30, 2018 and 2017, respectively. The estimated federal statutory tax rate was 21% and 35%, respectively, for the periods presented.

(in thousands)	Six Months Ended June 30, 2018 Average Balance	Interest	Average Yield/Cost	2017 Average Balance	Interest	Average Yield/Cost
Assets:						
Interest-earning assets: [1]						
Cash and cash equivalents	$83,487	$432	1.04 %	$89,224	$261	0.59 %
Investment securities	913,609	12,115	2.65 %	1,121,224	13,065	2.33 %
Loans held for sale	495,369	10,734	4.33 %	581,947	11,673	4.02 %
Loans held for investment	4,739,850	106,995	4.53 %	4,017,748	89,187	4.44 %
Total interest-earning assets	6,232,315	130,276	4.19 %	5,810,143	114,186	3.93 %
Noninterest-earning assets [2]	684,164			574,654		
Total assets	$6,916,479			$6,384,797		
Liabilities and shareholders' equity:						
Deposits:						
Interest-bearing demand accounts	$443,256	$870	0.39 %	$472,920	$980	0.42 %
Savings accounts	292,629	448	0.31 %	307,095	508	0.33 %
Money market accounts	1,893,852	7,511	0.79 %	1,570,406	4,128	0.53 %
Certificate accounts	1,311,092	8,843	1.35 %	1,224,122	6,104	1.00 %
Total interest-bearing deposits	3,940,829	17,672	0.90 %	3,574,543	11,720	0.66 %
Federal Home Loan Bank advances	901,230	8,418	1.87 %	923,679	4,770	1.04 %
Federal funds purchased and securities sold under agreements to repurchase	6,287	56	1.80 %	2,901	16	1.03 %
Other borrowings	332	8	2.21 %	—	—	— %
Long-term debt	125,314	3,246	5.20 %	125,183	2,992	4.81 %
Total interest-bearing liabilities	4,973,992	29,400	1.18 %	4,626,306	19,498	0.85 %
Noninterest-bearing liabilities	1,207,726			1,099,530		
Total liabilities	6,181,718			5,725,836		
Shareholders' equity	734,761			658,961		
Total liabilities and shareholders' equity	$6,916,479			$6,384,797		
Net interest income [3]		$100,876			$94,688	
Net interest spread			3.01 %			3.08 %
Impact of noninterest-bearing sources			0.24 %			0.18 %
Net interest margin			3.25 %			3.26 %

(1) The average balances of nonaccrual assets and related income, if any, are included in their respective categories.
(2) Includes loan balances that have been foreclosed and are now reclassified to OREO.
(3) Includes taxable-equivalent adjustments primarily related to tax-exempt income on certain loans and securities of $1.4 million and $2.2 million for the six months ended June 30, 2018 and 2017 respectively. The estimated federal statutory tax rate was 21% and 35%, respectively, for the periods presented.

Interest on Nonaccrual Loans

We do not include interest collected on nonaccrual loans in interest income. When we place a loan on nonaccrual status, we reverse the accrued but unpaid interest, which reduces interest income for the period in which the reversal occurs and we stop amortizing any net deferred fees (which are normally amortized over the life of the loan). Additionally, if interest is received on nonaccrual loans, the interest collected on the loan is recognized as an adjustment to the cost basis of the loan. The net decrease to interest income due to adjustments made for nonaccrual loans, including the effect of additional interest income that would have been recorded during the period if the loans had been accruing, was $338 thousand and $636 thousand for the three and six months ended June 30, 2018,

respectively, and $352 thousand and $797 thousand for the three and six months ended June 30, 2017, respectively.

Net Income

For the three months ended June 30, 2018, net income was $7.1 million, a decrease of $4.1 million or 36.7% from $11.2 million for the same period in 2017. For the six months ended June 30, 2018, net income was $13.0 million, a decrease of $7.2 million, or 35.8% from net income of $20.2 million for the same period in 2017. The decreases were primarily due to a decrease in mortgage production and the expenses related to the restructuring of the Mortgage Banking segment.

Net Interest Income

Our profitability depends significantly on net interest income, which is the difference between income earned on our interest-earning assets, primarily loans and investment securities, and interest paid on interest-bearing liabilities. Our interest-bearing liabilities consist primarily of deposits and borrowed funds, including our outstanding trust preferred securities, senior unsecured notes and advances from the Federal Home Loan Bank ("FHLB").

Net interest income on a tax equivalent basis for the second quarter of 2018 was $51.7 million, an increase of $3.7 million, or 7.7%, from the second quarter of 2017. For the six months ended June 30, 2018 net interest income on a tax equivalent basis was $100.9 million, an increase of $6.2 million, or 6.5% from $94.7 million for the same period in 2017. The increases from 2017 were primarily due to growth of loans held for investment and higher yields on average interest-earning assets, partially offset by higher cost of funds. The net interest margin for the second quarter of 2018 decreased to 3.25% from 3.29% for the same period in 2017. For the six months ended June 30, 2018 net interest margin decreased to 3.25% from 3.26% for the same period in 2017. The decreases from 2017 were primarily due to our cost of interest-bearing liabilities, which increased more rapidly than our yield on interest-earning assets. The flatness of the yield curve is adversely affecting our net interest margin as the cost of interest-bearing liabilities are increasing more quickly than the yield on our interest-earning assets.

For the three and six months ended June 30, 2018, total average interest-earning assets increased $531.8 million, or 9.1% from the three months ended June 30, 2017 and increased $422.2 million, or 7.3% from the six months ended June 30, 2017, primarily as a result of overall organic loan growth.

Total interest income of $67.9 million on a tax equivalent basis in the second quarter of 2018 increased $10.0 million, or 17.3%, from $57.9 million in the second quarter of 2017. For the six months ended June 30, 2018 total interest income on a tax equivalent basis was $130.3 million, an increase of $16.1 million, or 14.1% from the six months ended June 30, 2017. These increases were primarily the result of higher average balances of loans held for investment, which increased $716.8 million, or 17.4% and $722.1 million or 18.0% from the three and six months ended June 30, 2017, respectively.

Total interest expense in the second quarter of 2018 increased $6.3 million, or 63.9% from $9.9 million in the second quarter of 2017. For the six months ended June 30, 2018 total interest expense increased $9.9 million, or 50.8% from $19.5 million for the six months ended June 30, 2017. The increases resulted from higher rates on interest-bearing deposits and FHLB advances.

Provision for Credit Losses

We recorded a provision for credit loss of $1.0 million in the second quarter of 2018 compared to $500 thousand in the second quarter of 2017. The increase was primarily due to net charge-offs in the quarter compared to net recoveries in the comparable period. For the six months ended June 30, 2018 we recorded a provision for credit loss of $1.8 million compared to $500 thousand for the six months ended June 30, 2017, primarily due to higher net recoveries in the six months ended June 30, 2017 as compared to the same period in 2018.

Nonaccrual loans were $9.6 million at June 30, 2018, a decrease of $5.4 million, or 36.0%, from $15.0 million at December 31, 2017. Nonaccrual loans as a percentage of total loans decreased to 0.20% at June 30, 2018 from 0.33% at December 31, 2017.

Net charge-offs were $464 thousand in the second quarter of 2018 compared to net recoveries of $928 thousand in the second quarter of 2017. For the first half of 2018 net recoveries were $116 thousand compared to net recoveries of $1.7 million in the first half of 2017. For a more detailed discussion on our allowance for loan losses and related provision for loan losses, see *Credit Risk Management* within Management's Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report on Form 10-Q.

Noninterest Income

Noninterest income consisted of the following.

(in thousands)	Three Months Ended June 30, 2018	2017	Dollar Change	Percent Change	Six Months Ended June 30, 2018	2017	Dollar Change	Percent Change
Noninterest income								
Gain on loan origination and sale activities [1]	$57,049	$65,908	$(8,859)	(13)%	$105,368	$126,189	$(20,821)	(16)%
Loan servicing income	7,032	8,764	(1,732)	(20)	14,606	18,003	(3,397)	(19)
Income from WMS Series LLC	322	406	(84)	(21)	311	591	(280)	(47)
Depositor and other retail banking fees	1,953	1,811	142	8	3,898	3,467	431	12
Insurance agency commissions	527	501	26	5	1,070	897	173	19
Gain on sale of investment securities available for sale	16	551	(535)	(97)	238	557	(319)	(57)
Other	2,490	3,067	(577)	(19)	4,729	5,765	(1,036)	(18)
Total noninterest income	$69,389	$81,008	$(11,619)	(14)%	$130,220	$155,469	$(25,249)	(16)%

(1) Single family, multifamily and other commercial loan banking activities.

Our noninterest income is heavily dependent upon our single family mortgage banking activities, which are comprised of mortgage origination and sale as well as mortgage servicing activities. The level of our mortgage banking activity fluctuates and is highly sensitive to changes in mortgage interest rates, as well as to general economic conditions such as employment trends and housing supply and affordability. The decreases in noninterest income in the three and six months ended June 30, 2018 compared to the same periods in 2017 were primarily due to a decrease in mortgage production resulting in a decrease in gain on loan origination and sale activities in our Mortgage Banking segment.

The significant components of our noninterest income are described in greater detail as follows.

Gain on loan origination and sale activities consisted of the following.

(in thousands)	Three Months Ended June 30, 2018	2017	Dollar Change	Percent Change	Six Months Ended June 30, 2018	2017	Dollar Change	Percent Change
Single family held for sale:								
Servicing value and secondary market gains[1]	$48,182	$57,353	$(9,171)	(16)%	$89,609	$107,891	$(18,282)	(17)%
Loan origination and administrative fees	6,158	6,823	(665)	(10)	11,603	12,604	(1,001)	(8)
Total gain on single family held for sale	54,340	64,176	(9,836)	(15)	101,212	120,495	(19,283)	(16)
Multifamily DUS®	1,613	1,273	340	27	2,759	4,633	(1,874)	(40)
SBA	385	316	69	22	686	918	(232)	(25)
CRE Non-DUS®	800	143	657	459	800	143	657	459
Single Family	(89)	—	(89)	NM	(89)	—	(89)	NM
Gain on loan origination and sale activities	$57,049	$65,908	$(8,859)	(13)%	$105,368	$126,189	$(20,821)	(16)%

NM = not meaningful

(1) Comprised of gains and losses on interest rate lock commitments (which considers the value of servicing), single family loans held for sale, forward sale commitments used to economically hedge secondary market activities, and changes in the Company's repurchase liability for loans that have been sold.

Single family production volumes related to loans designated for sale consisted of the following.

(in thousands)	Three Months Ended June 30, 2018	2017	Dollar Change	Percent Change	Six Months Ended June 30, 2018	2017	Dollar Change	Percent Change
Single family mortgage interest rate lock commitments	$1,679,748	$1,950,427	$(270,679)	(14)%	$3,251,723	$3,573,049	$(321,326)	(9)%
Single family mortgage closed loan volume [1]	1,739,887	2,011,127	(271,240)	(13)%	3,192,285	3,632,180	(439,895)	(12)%

(1) Includes loans originated by WMS Series LLC and purchased by HomeStreet Bank.

The decreases in gain on loan origination and sale activities in the three and six months ended June 30, 2018 compared to the same periods in 2017 were primarily due to lower single family mortgage interest rate lock commitments as a result of the higher market interest rates in the period and a limited supply of available housing in our primary markets. We reduced the number of employees in the mortgage segment by 16.9% at June 30, 2018 compared to June 30, 2017, primarily due to our Mortgage Banking segment restructuring events in 2017 and 2018. At June 30, 2018, mortgage production personnel was 450 employees compared to 527 employees at June 30, 2017.

Management records a liability for estimated mortgage repurchase losses, which has the effect of reducing gain on loan origination and sale activities. The following table presents the effect of changes in our mortgage repurchase liability within the respective line of gain on loan origination and sale activities. For further information on our mortgage repurchase liability, see Note 7, *Commitments, Guarantees and Contingencies,* to the financial statements in this Quarterly Report on Form 10-Q.

(in thousands)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Effect of changes to the mortgage repurchase liability recorded in gain on loan origination and sale activities:				
New loan sales [1]	$308	$592	$555	$1,359
Other changes in estimated repurchase losses [2]	(313)	(264)	50	(1,391)
	$(5)	$328	$605	$(32)

(1) Represents the estimated fair value of the repurchase or indemnity obligation recognized as a reduction of proceeds on new loan sales.
(2) Represents changes in estimated probable future repurchase losses on previously sold loans.

Loan servicing income consisted of the following.

(in thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Dollar Change	Percent Change	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Dollar Change	Percent Change
Servicing income, net:								
Servicing fees and other	$18,385	$15,977	$2,408	15 %	$36,836	$32,156	$4,680	15 %
Changes in fair value of single family MSRs due to amortization [1]	(9,400)	(8,909)	(491)	6	(18,270)	(17,429)	(841)	5
Amortization of multifamily and SBA MSRs	(1,064)	(761)	(303)	40	(2,113)	(1,692)	(421)	25
	7,921	6,307	1,614	26	16,453	13,035	3,418	26
Risk management:								
Changes in fair value of MSRs due to changes in model inputs and/or assumptions [2]	11,299 [3]	(6,417)	17,716	276	41,318 [3]	(4,285)	45,603	NM
Net (loss) gain from derivatives economically hedging MSRs	(12,188)	8,874	(21,062)	(237)	(43,165)	9,253	(52,418)	(566)
	(889)	2,457	(3,346)	(136)	(1,847)	4,968	(6,815)	(137)
Loan servicing income	$7,032	$8,764	$(1,732)	(20)%	$14,606	$18,003	$(3,397)	(19)%

NM = not meaningful

(1) Represents changes due to collection/realization of expected cash flows and curtailments.

(2) Principally reflects changes in market inputs, which include current market interest rates and prepayment model updates, both of which affect future prepayment speed and cash flow projections.

(3) Includes pre-tax income of $573 thousand, net of transaction costs and prepayment reserves, resulting from the sale of single family MSRs during the three and six months ended June 30, 2018.

The decreases in loan servicing income for the three and six months ended June 30, 2018 compared to the same periods in 2017 were primarily due to lower risk management results, partially offset by higher servicing fees. The flattening yield curve and increased negative convexity in our mortgage servicing portfolio have substantially reduced risk management results. Risk management results fluctuate as market conditions change, including changes in interest rates. Mortgage servicing fees collected in the three and six months ended June 30, 2018 increased compared to the same periods in 2017 primarily as a result of higher average balances of loans serviced for others during the period. Our loans serviced for others portfolio was $20.51 billion at June 30, 2018 compared to $24.02 billion at December 31, 2017 and $22.32 billion at June 30, 2017. Loans serviced for others decreased at June 30, 2018 due to the sale of approximately $4.9 billion of unpaid principal balance of our single family mortgage servicing rights on June 29, 2018.

MSR risk management results represent changes in the fair value of single family MSRs due to changes in model inputs and assumptions net of the gain/(loss) from derivatives economically hedging MSRs. The fair value of MSRs is sensitive to changes in interest rates, primarily due to the effect on prepayment speeds. MSRs typically increase in value when interest rates rise because rising interest rates tend to decrease mortgage prepayment speeds, and therefore increase the expected life of the net servicing cash flows of the MSR asset. Certain other changes in MSR fair value relate to factors other than interest rate changes and are generally not within the scope of the Company's MSR economic hedging strategy. These factors may include but are not limited to the impact of changes to the housing price index, prepayment model assumptions, the level of home sales activity, changes to mortgage spreads, valuation discount rates, costs to service and policy changes by U.S. government agencies.

Income from WMS Series LLC decreased in the three and six months ended June 30, 2018 compared to the same periods in 2017 primarily due to lower mortgage production driven by a lack of housing inventory and increased competition in the markets served by WMS.

Depositor and other retail banking fees for the three and six months ended June 30, 2018 increased from the three and six months ended June 30, 2017 primarily due to an increase in the number of transaction accounts from which we generate fee income.

The following table presents the composition of depositor and other retail banking fees for the periods indicated.

(in thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Dollar Change	Percent Change	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Dollar Change	Percent Change
Fees:								
Monthly maintenance and deposit-related fees	$787	$758	$ 29	4 %	$1,598	$1,460	$ 138	9 %
Debit Card/ATM fees	1,098	1,014	84	8	2,166	1,911	255	13
Other fees	68	39	29	74	134	96	38	40
Total depositor and other retail banking fees	$1,953	$1,811	$ 142	8 %	$3,898	$3,467	$ 431	12 %

Noninterest Expense

Noninterest expense consisted of the following.

(in thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Dollar Change	Percent Change	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Dollar Change	Percent Change
Noninterest expense								
Salaries and related costs	$69,127	$76,390	$(7,263)	(10)%	$135,818	$147,698	$(11,880)	(8)%
General and administrative	14,707	15,872	(1,165)	(7)	29,291	33,000	(3,709)	(11)
Amortization of core deposit intangibles	407	493	(86)	(17)	813	1,007	(194)	(19)
Legal	839	150	689	459	1,569	310	1,259	406
Consulting	758	771	(13)	(2)	1,635	1,829	(194)	(11)
Federal Deposit Insurance Corporation assessments	1,079	697	382	55	2,008	1,521	487	32
Occupancy	14,953 (1)	8,880	6,073	68	23,133 (1)	17,089	6,044	35
Information services	8,693	8,172	521	6	17,158	15,820	1,338	8
Net cost (benefit) of operation and sale of other real estate owned	2	(181)	183	(101)	(91)	(156)	65	(42)
Total noninterest expense	$110,565	$111,244	$(679)	(1)%	$211,334	$218,118	$(6,784)	(3)%

(1) Includes approximately $6.4 million of pre-tax charges related to the Mortgage Banking restructuring activity that occurred in the second quarter of 2018.

The decreases in noninterest expense in the three and six months ended June 30, 2018 compared to the same periods in 2017 were primarily due to decreased commissions, salary and related costs on lower closed loan volume and cost savings associated with headcount and non-personnel reductions in our Mortgage Banking segment, partially offset by the restructuring charges in the second quarter of 2018.

Income Tax Expense

For the second quarter of 2018, income tax expense was $1.7 million compared to income tax expense of $4.9 million for the second quarter of 2017. For the six months ended June 30, 2018, income tax expense was $3.6 million compared with an expense of $9.2 million for the six months ended June 30, 2017.
Our effective income tax rate of 19.6% for the second quarter of 2018 differs from the Federal statutory tax rate of 21% primarily due to the impact of tax-exempt interest income. This is lower than our effective tax rate of 21.9% for the six months ended June 30, 2018, due to the impact from our Q1 2018 discrete item related to prior period state net operating losses.

Our effective income tax rate for the second quarter of 2017 was 30.5%, as compared to 19.6% for the second quarter of 2018. The reduction in our effective tax rate is primarily the result of the 2017 Tax Cuts and Jobs Act (“Tax Act”)

passed in December 2017, which lowered the Federal statutory tax rate to 21%.

Review of Financial Condition – Comparison of June 30, 2018 to December 31, 2017

Total assets were $7.16 billion at June 30, 2018 compared to $6.74 billion at December 31, 2017, an increase of $421.8 million, or 6%.

Cash and cash equivalents were $176.2 million at June 30, 2018 compared to $72.7 million at December 31, 2017, an increase of $103.5 million, or 142%.

Investment securities were $907.5 million at June 30, 2018 compared to $904.3 million at December 31, 2017, an increase of $3.2 million.

We primarily hold investment securities for liquidity purposes, while also creating a relatively stable source of interest income. We designate the vast majority of these securities as available for sale. We designated securities having a carrying value of $78.0 million at June 30, 2018 as held to maturity.

The following table details the composition of our investment securities available for sale by dollar amount and as a percentage of the total available for sale securities portfolio.

	At June 30, 2018		At December 31, 2017	
(in thousands)	Fair Value	Percent	Fair Value	Percent
Investment securities available for sale:				
Mortgage-backed securities:				
Residential	$115,848	14 %	$130,090	15 %
Commercial	30,354	4	23,694	3
Municipal bonds	361,799	44	388,452	46
Collateralized mortgage obligations:				
Residential	168,519	20	160,424	19
Commercial	111,623	13	98,569	12
Corporate debt securities	21,478	3	24,737	3
U.S. Treasury securities	10,438	1	10,652	1
Agency debentures	9,363	1	9,650	1
Total investment securities available for sale	$829,422	100 %	$846,268	100 %

Loans held for sale were $568.5 million at June 30, 2018 compared to $610.9 million at December 31, 2017, a decrease of $42.4 million, or 7%. Loans held for sale primarily include single family residential loans, typically sold within 30 days of closing the loan. The decrease in the loans held for sale balance was primarily due to a decline in mortgage volume.

The following table details the composition of our loans held for investment, net portfolio by dollar amount and as a percentage of our total loan portfolio.

(in thousands)	At June 30, 2018 Amount	Percent	At December 31, 2017 Amount	Percent
Consumer loans:				
Single family [(1)]	$1,416,072	29 %	$1,381,366	30 %
Home equity and other	513,016	10	453,489	10
	1,929,088	39	1,834,855	40
Commercial real estate loans:				
Non-owner occupied commercial real estate	640,984	13	622,782	14
Multifamily	836,260	17	728,037	16
Construction/ land development	778,094	16	687,631	15
	2,255,338	46	2,038,450	45
Commercial and industrial loans:				
Owner occupied commercial real estate	400,149	8	391,613	9
Commercial business	319,038	7	264,709	6
	719,187	15	656,322	15
Total loans before allowance, net deferred loan fees and costs	4,903,613	100 %	4,529,627	100 %
Net deferred loan fees and costs	19,177		14,686	
	4,922,790		4,544,313	
Allowance for loan losses	(39,480)		(37,847)	
	$4,883,310		$4,506,466	

(1) Includes $4.2 million and $5.5 million at June 30, 2018 and December 31, 2017, respectively, of loans where a fair value option election was made at the time of origination and, therefore, are carried at fair value with changes recognized in the consolidated statements of operations.

Loans held for investment, net increased $376.8 million, or 8.4%, from December 31, 2017. During the quarter, new commitments totaled $838.8 million and included $327.8 million of consumer loans, $23.6 million of non-owner occupied commercial real estate loans, $89.1 million of multifamily permanent loans, $52.0 million of commercial and industrial loans and $346.2 million of construction loans. New commitments for construction loans include $180.9 million in residential construction, $86.5 million in single family custom home construction and $78.8 million in multifamily construction.

Mortgage servicing rights were $272.2 million at June 30, 2018 compared to $284.7 million at December 31, 2017, a decrease of $12.4 million, or 4.4%, primarily due to the sale of approximately $4.90 billion of unpaid principal balance of our single family mortgage servicing rights on June 29, 2018.

Federal Home Loan Bank stock was $48.2 million at June 30, 2018 compared to $46.6 million at December 31, 2017, an increase of $1.5 million, or 3.3%. FHLB stock is carried at par value and can only be purchased or redeemed at par value in transactions between the FHLB and its member institutions. Cash dividends received on FHLB stock are reported in earnings.

Other assets were $185.5 million at June 30, 2018, compared to $188.5 million at December 31, 2017, a decrease of $2.9 million, or 1.6%.

Deposit balances were as follows for the periods indicated:

(in thousands)	At June 30, 2018		At December 31, 2017	
	Amount	Percent	Amount	Percent
Noninterest-bearing accounts - checking and savings	$627,893	12 %	$579,504	12 %
Interest-bearing transaction and savings deposits:				
NOW accounts	486,104	9	461,349	10
Statement savings accounts due on demand	283,969	6	293,858	6
Money market accounts due on demand	1,932,340	38	1,834,154	39
Total interest-bearing transaction and savings deposits	2,702,413	53	2,589,361	55
Total transaction and savings deposits	3,330,306	65	3,168,865	67
Certificates of deposit	1,396,082	27	1,190,689	25
Noninterest-bearing accounts - other	393,897	8	401,398	8
Total deposits	$5,120,285	100 %	$4,760,952	100 %

Deposits at June 30, 2018 increased $359.3 million, or 7.5%, from December 31, 2017. During the first six months of 2018, transaction and savings deposits increased by $161.4 million, or 5.1%, primarily from increases in business money market deposits. The $205.4 million, or 17.2%, increase in certificates of deposit since December 31, 2017 was due primarily to a $262.2 million increase in brokered deposits relating primarily to favorable issuance costs for brokered CDs relative to other wholesale sources of funds, and business checking accounts. The $7.5 million, or 1.9%, decrease in deposits in other noninterest-bearing accounts was primarily associated with seasonal mortgage servicing activity. At June 30, 2018, brokered deposits represented 11.9% of total deposits, as compared to 7.3% of total deposits at December 31, 2017.

The aggregate amount of time deposits in denominations of more than $250 thousand at June 30, 2018 and December 31, 2017 was $86.3 million and $88.8 million, respectively. There were $607.8 million and $345.5 million of brokered deposits at June 30, 2018 and December 31, 2017, respectively.

Federal Home Loan Bank advances were $1.01 billion at June 30, 2018 compared to $979.2 million at December 31, 2017. We use these borrowings primarily to fund our mortgage banking and secondarily to fund our securities investment activities. We effectively used FHLB advances to fund single family loans held for sale and to match the duration on variable rate loans, such as residential construction loans and the line of credit, which mitigated the impact of changes in interest rates.

Shareholders’ Equity

Shareholders' equity was $706.5 million at June 30, 2018 compared to $704.4 million at December 31, 2017. This increase was primarily related to net income of $13.0 million and share-based compensation of $1.5 million recognized during the six months ended June 30, 2018, partially offset by other comprehensive loss of $12.6 million. Other comprehensive income (loss) represents unrealized gains and losses, net of tax in the valuation of our available for sale investment securities portfolio at June 30, 2018.

Shareholders’ equity, on a per share basis, was $26.19 per share at June 30, 2018, compared to $26.20 per share at December 31, 2017.

Return on Equity and Assets

The following table presents certain information regarding our returns on average equity and average total assets.

	At or For the Three Months Ended June 30,		At or For the Six Months Ended June 30,	
	2018	2017	2018	2017
Return on assets [(1)]	0.40 %	0.70 %	0.37 %	0.63 %
Return on equity [(2)]	3.78 %	6.71 %	3.53 %	6.13 %
Equity to assets ratio [(3)]	10.61 %	10.40 %	10.62 %	10.32 %

(1) Net income divided by average total assets.
(2) Net earnings available to common shareholders divided by average common shareholders' equity.
(3) Average equity divided by average total assets.

Business Segments

Our business segments are determined based on the products and services provided, as well as the nature of the related business activities and reflect the manner in which financial information is currently evaluated by management.

This process is based on management's view of the Company's operations and is not necessarily comparable with similar information for other financial institutions. We define our business segments by product type and customer segment. If the management structure or the allocation process changes, allocations, transfers and assignments may change.

Commercial and Consumer Banking Segment

Commercial and Consumer Banking provides diversified financial products and services to our commercial and consumer customers through bank branches, ATMs, and online, mobile and telephone banking. These products and services include deposit products; residential, consumer, business and agricultural portfolio loans; non-deposit investment products; insurance products; and cash management services. We originate construction loans, bridge loans and permanent loans for our portfolio primarily on single family residences, and on office, retail, industrial and multifamily properties. We originate multifamily real estate loans through our Fannie Mae DUS® business, and after origination those loans are sold to or securitized by Fannie Mae, with the Company generally retaining the servicing rights. In addition, through the HomeStreet Commercial Capital division of HomeStreet Bank, we originate permanent commercial real estate loans primarily up to $15 million in size, a portion of which we intend to pool and sell into the secondary market. As a part of the Commercial Lending division, we also have a team that specializes in U.S. Small Business Administration ("SBA") lending. At June 30, 2018, our retail deposit branch network consists of 62 branches in the Pacific Northwest, California and Hawaii. At June 30, 2018 and December 31, 2017, our transaction and savings deposits totaled $3.33 billion and $3.17 billion, respectively, and our loan portfolio totaled $4.88 billion and $4.51 billion, respectively. This segment also reflects the results for the management of the Company's portfolio of investment securities.

Commercial and Consumer Banking segment results are detailed below.

(in thousands)	Three Months Ended June 30, 2018	2017	Dollar Change	Percent Change	Six Months Ended June 30, 2018	2017	Dollar Change	Percent Change
Net interest income	$47,745	$42,448	$5,297	12 %	$93,193	$83,352	$9,841	12 %
Provision for credit losses	1,000	500	500	100	1,750	500	1,250	250
Noninterest income	8,405	8,276	129	2	15,501	17,701	(2,200)	(12)
Noninterest expense	39,286	36,631	2,655	7	77,558	73,101	4,457	6
Income before income tax expense	15,864	13,593	2,271	17	29,386	27,452	1,934	7
Income tax expense	3,964	4,147	(183)	(4)	7,280	8,714	(1,434)	(16)
Net income	$11,900	$9,446	$2,454	26 %	$22,106	$18,738	$3,368	18 %
Total assets	$6,358,100	$5,593,889	$764,211	14 %	$6,358,100	$5,593,889	$764,211	14 %
Efficiency ratio (1)	69.97 %	72.22 %			71.35 %	72.34 %		
Full-time equivalent employees (ending)	1,018	1,055			1,018	1055		
Production volumes for sale to the secondary market:								
Loan originations								
Multifamily DUS® (2)	$71,759	$58,343	$13,416	23 %	$93,503	$115,895	$(22,392)	(19)%
SBA	5,713	6,126	(413)	(7)%	8,943	12,924	(3,981)	(31)%
Loans sold								
Multifamily DUS® (2)	$54,621	$35,312	$19,309	55 %	$87,597	$112,161	$(24,564)	(22)%
SBA	3,622	3,532	90	3 %	7,314	11,167	(3,853)	(35)%
CRE Non-DUS (3)	114,650	21,163	93,487	442 %	114,650	26,714	87,936	329 %
Single Family (3)	138,603	—	138,603	NM	138,603	—	138,603	NM
Net gain on loan origination and sale activities:								
Multifamily DUS®(2)	1,613	1,273	340	27 %	2,759	4,633	(1,874)	(40)%
SBA	385	316	69	22 %	686	918	(232)	(25)%
CRE Non-DUS (3)	800	143	657	459 %	800	143	657	459 %
Single Family (3)	(89)	—	(89)	NM	(89)	—	(89)	NM
	$2,709	$1,732	$977	56 %	$4,156	$5,694	$(1,538)	(27)%

NM = not meaningful

(1) Noninterest expense divided by total net revenue (net interest income and noninterest income).

(2) Fannie Mae Multifamily Delegated Underwriting and Servicing Program ("DUS"®) is a registered trademark of Fannie Mae.

(3) Loans originated as held for investment.

Commercial and Consumer Banking net income increased for the three and six months ended June 30, 2018 compared to the same periods in 2017 primarily due to an increase in net interest income from higher average balances and yields on interest-earning assets and a reduction in our effective tax rate, partially offset by higher cost of funds.

The segment recorded a $1.0 million and $1.8 million provision for credit losses in the three and six months ended June 30, 2018, respectively, compared to a $500 thousand provision in both the three and six months ended June 30, 2017. The increase from the three months ended June 30, 2017 was primarily due to net charge-offs in the quarter compared to net recoveries in the same period in 2017. The increase from six months ended June 30, 2017 was primarily due to lower net recoveries in the six months ended June 30, 2018 compared to the six months ended June 30, 2017.

Noninterest income increased for the three months ended June 30, 2018 compared to the same period in 2017 primarily due to an increase in gain on sale income driven by higher commercial real estate loan sales volume. Noninterest income decreased for the six months ended June 30, 2018 compared to the same period in 2017 primarily

due to increases in mark to market adjustments on certain loans and prepayment fees in the first six months of 2017, as well as a decline in gain on sale income primarily due to lower Fannie Mae DUS sales.

Noninterest expense increased in the three and six months ended June 30, 2018 compared to the same periods in 2017 primarily due to higher costs from the continued growth of our commercial real estate and commercial business lending units and our expanding branch banking network, including increased information system expenses and FDIC assessments. In the first six months of 2018, we added four de novo retail deposit branches. The segment's headcount decreased by 3.5% from June 30, 2017 in part due to our continued effort to improve the efficiency of our corporate support functions.

Commercial and Consumer Banking segment loans serviced for others consisted of the following.

(in thousands)	At June 30, 2018	At December 31, 2017
Commercial		
Multifamily DUS®	$ 1,357,929	$ 1,311,399
Other	82,083	79,797
Total commercial loans serviced for others	$ 1,440,012	$ 1,391,196

Commercial and Consumer Banking segment servicing income consisted of the following.

(in thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Dollar Change	Percent Change	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Dollar Change	Percent Change
Servicing income, net:								
Servicing fees and other	$ 2,001	$ 1,652	$ 349	21 %	$ 3,958	$ 3,492	$ 466	13 %
Amortization of multifamily and SBA MSRs	(1,064)	(761)	(303)	(40)	(2,113)	(1,692)	(421)	(25)
Commercial mortgage servicing income	$ 937	$ 891	$ 46	5 %	$ 1,845	$ 1,800	$ 45	3 %

Mortgage Banking Segment

Mortgage Banking originates single family residential mortgage loans primarily for sale in the secondary markets and performs mortgage servicing on a substantial portion of such loans. Additionally, we purchase loans from WMS Series LLC through a correspondent arrangement with that company. The majority of our mortgage loans are sold to or securitized by Fannie Mae, Freddie Mac or Ginnie Mae, while we retain the right to service these loans. We have become a rated originator and servicer of jumbo loans, allowing us to sell these loans to other securitizers. We also sell loans on a servicing-released and servicing-retained basis to securitizers and correspondent lenders. A small percentage of our loans are brokered to other lenders. On occasion, we may sell a portion of our MSR portfolio. We manage the loan funding and the interest rate risk associated with the secondary market loan sales and the retained single family MSRs within this business segment.

Mortgage Banking segment results are detailed below.

(in thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Dollar Change	Percent Change	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Dollar Change	Percent Change
Net interest income	$3,258	$4,420	$(1,162)	(26)%	$6,270	$9,167	$(2,897)	(32)%
Noninterest income	60,984	72,732	(11,748)	(16)	114,719	137,768	(23,049)	(17)
Noninterest expense	71,279	74,613	(3,334)	(4)	133,776	145,017	(11,241)	(8)
(Loss) income before income taxes	(7,037)	2,539	(9,576)	(377)	(12,787)	1,918	(14,705)	(767)
Income tax (benefit) expense	(2,236)	776	(3,012)	(388)	(3,646)	464	(4,110)	(886)
Net (loss) income	$(4,801)	$1,763	$(6,564)	(372)%	$(9,141)	$1,454	$(10,595)	(729)%
Total assets	$805,777	$992,668	$(186,891)	(19)%	$805,777	$992,668	$(186,891)	(19)%
Efficiency ratio [(1)]	110.95%	96.71%			110.57%	98.69%		
Full-time equivalent employees (ending)	1,235	1,487			1,235	1,487		
Production volumes for sale to the secondary market:								
Single family mortgage interest rate lock commitments	$1,679,748	$1,950,427	$(270,679)	(14)%	$3,251,723	$3,573,049	$(321,326)	(9)%
Single family mortgage closed loan volume [(2)(3)]	$1,739,887	$2,011,127	$(271,240)	(13)%	$3,192,285	$3,632,180	$(439,895)	(12)%
Single family mortgage loans sold[(3)]	$1,629,745	$1,808,500	$(178,755)	(10)%	$3,180,469	$3,548,237	$(367,768)	(10)%

(1) Noninterest expense divided by total net revenue (net interest income and noninterest income).
(2) Includes loans originated by WMS Series LLC and purchased by HomeStreet Bank and brokered loans where HomeStreet receives fee income but does not fund the loan on its balance sheet or sell it into the secondary market.
(3) Represents single family mortgage production volume designated for sale to the secondary market during each respective period.

Mortgage Banking earnings decreased for the three and six months ended June 30, 2018 compared to the same periods in 2017 primarily due the $6.9 million in restructuring charges in the second quarter of 2018, lower mortgage production and lower mortgage loan servicing income. These decreases were partially offset by decreased commission costs on lower closed loan volume and lower salary and related costs associated with headcount reductions from our 2017 and 2018 restructuring events.

Mortgage Banking gain on sale to the secondary market is detailed in the following table.

(in thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Dollar Change	Percent Change	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Dollar Change	Percent Change
Single family: [(1)]								
Servicing value and secondary market gains[(2)]	$48,182	$57,353	$(9,171)	(16)%	$89,609	$107,891	$(18,282)	(17)%
Loan origination and funding fees	6,158	6,823	(665)	(10)	11,603	12,604	(1,001)	(8)
Total mortgage banking gain on loan origination and sale activities[(1)]	$54,340	$64,176	$(9,836)	(15)%	$101,212	$120,495	$(19,283)	(16)%

(1) Excludes inter-segment activities.
(2) Comprised of gains and losses on interest rate lock commitments (which considers the value of servicing), single family loans held for sale, forward sale commitments used to economically hedge secondary market activities, and the estimated fair value of the repurchase or indemnity obligation recognized on new loan sales.

The decreases in gain on loan origination and sale activities for the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017 were primarily the result of a 13.9% and 9.0%, respectively, decrease in interest rate lock commitments, reflecting the limited supply of housing in our markets, which reduced the volume of purchase loan activity in the periods presented, and the impact of higher interest rates, which reduced the volume of refinance activity in the periods presented. The decrease from the six months ended June 30, 2018 also relates to increased industry-wide competition which reduce our composite margin.

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Mortgage Banking servicing income consisted of the following.

(in thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Dollar Change	Percent Change	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Dollar Change	Percent Change
Servicing income, net:								
Servicing fees and other	$16,384	$14,325	$2,059	14 %	$32,878	$28,664	$4,214	15 %
Changes in fair value of MSRs due to amortization [1]	(9,400)	(8,909)	(491)	(6)	(18,270)	(17,429)	(841)	(5)
	6,984	5,416	1,568	29	14,608	11,235	3,373	30
Risk management:								
Changes in fair value of MSRs due to changes in market inputs and/or model updates [2]	11,299 [3]	(6,417)	17,716	276	41,318 [3]	(4,285)	45,603	NM
Net (loss) gain from derivatives economically hedging MSRs	(12,188)	8,874	(21,062)	(237)	(43,165)	9,253	(52,418)	(566)
	(889)	2,457	(3,346)	(136)	(1,847)	4,968	(6,815)	(137)
Mortgage Banking servicing income	$6,095	$7,873	$(1,778)	(23)%	$12,761	$16,203	$(3,442)	(21)%

NM = not meaningful

(1) Represents changes due to collection/realization of expected cash flows and curtailments.

(2) Principally reflects changes in model assumptions, including prepayment speed assumptions, which are primarily affected by changes in mortgage interest rates.

(3) Included pre-tax income of $573 thousand, net of transaction costs and prepayment reserves, resulting from the sale of single family MSRs during the three and six months ended June 30, 2018.

The decreases in Mortgage Banking servicing income in the three and six months ended June 30, 2018 compared to the same periods in 2017 were primarily attributable to lower risk management results, partially offset by higher servicing fees. Risk management results fluctuate as market conditions change, including changes in interest rates. The flattening yield curve and increased negative convexity in our mortgage servicing portfolio have substantially reduced risk management results. Single family mortgage servicing fees collected increased for the three and six months ended June 30, 2018 compared to the same periods in 2017, primarily due to higher average balances in our loans serviced for others portfolio.

Single family loans serviced for others consisted of the following.

(in thousands)	At June 30, 2018	At December 31, 2017
Single family		
U.S. government and agency	$18,493,704	$22,123,710
Other	579,472	507,437
Total single family loans serviced for others	$19,073,176	$22,631,147

Mortgage Banking noninterest expense for the three and six months ended June 30, 2018 decreased compared to the same periods in 2017, primarily due to decreased commissions, salary and related costs on lower closed loan volumes. The decreases also reflect lower salary and related costs associated with our headcount reductions from our 2017 and 2018 restructuring activities. The decreases were partially offset by $6.9 million in restructuring charges in the second quarter of 2018.

Off-Balance Sheet Arrangements

In the normal course of business, we are a party to financial instruments that carry off-balance sheet risk. These financial instruments (which include commitments to originate loans and commitments to purchase loans) include potential credit risk in excess of the amount recognized in the accompanying consolidated financial statements. These transactions are designed to (1) meet the financial needs of our customers, (2) manage our credit, market or liquidity risks, (3) diversify our funding sources and/or (4) optimize capital.

For more information on off-balance sheet arrangements, including derivative counterparty credit risk, see the *Off-Balance Sheet Arrangements* and *Commitments, Guarantees and Contingencies* discussions within Part II, Item 7- Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2017 Annual Report on Form 10-K, as well as Note 13, *Commitments*, *Guarantees and Contingencies* in our 2017 Annual Report on Form 10-K and Note 7, *Commitments, Guarantees and Contingencies* in this Quarterly Report on Form 10-Q.

Enterprise Risk Management

Like many financial institutions, we manage and control a variety of business and financial risks that can significantly affect our financial performance. Among these risks are credit risk; market risk, which includes interest rate risk and price risk; liquidity risk; and operational risk. We are also subject to risks associated with compliance/legal, strategic and reputational matters.
For more information on how we manage these business, financial and other risks, see the discussion in "Enterprise Risk Management" within Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2017 Annual Report on Form 10-K.

Credit Risk Management

The following discussion highlights developments since December 31, 2017 and should be read in conjunction with the "Credit Risk Management" within Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2017 Annual Report on Form 10-K.

Asset Quality and Nonperforming Assets

As credit quality continued to improve, nonperforming assets decreased to $10.4 million, or 0.14% of total assets at June 30, 2018, compared to $15.7 million, or 0.23% of total assets at December 31, 2017 and now represents the lowest absolute level of problem assets since 2006. Nonaccrual loans of $9.6 million, or 0.20% of total loans at June 30, 2018, decreased $5.4 million, or 36%, from $15.0 million, or 0.33% of total loans at December 31, 2017. Delinquency rates (both including FHA/VA insured and guaranteed portion of SBA loans) also improved in part as a result of the decrease in nonperforming loans compared to prior periods. Net charge-offs for the three months ended June 30, 2018 were $464 thousand and net recoveries for the six months ended June 30, 2018 were $116 thousand, compared to net recoveries of $928 thousand and $1.7 million for the three and six months ended June 30, 2017, respectively.

At June 30, 2018, our loans held for investment portfolio, net of the allowance for loan losses, was $4.88 billion, an increase of $376.8 million from December 31, 2017. The allowance for loan losses was $39.5 million, or 0.80% of loans held for investment, compared to $37.8 million, or 0.83% of loans held for investment at December 31, 2017.

We recorded a provision of credit losses of $1.0 million and $1.8 million for the three and six months ended June 30, 2018, respectively, compared to a provision for credit loss of $500 thousand in both the three and six months ended June 30, 2017. Management considers the current level of the allowance for loan losses to be appropriate to cover estimated losses inherent within our loans held for investment portfolio.

For information regarding the activity on our allowance for credit losses, which includes the reserves for unfunded commitments, and the amounts that were collectively and individually evaluated for impairment, see Part I, Item 1 Notes to Interim Consolidated Financial Statements—Note 3, *Loans and Credit Quality,* of this Quarterly Report on Form 10-Q.

The allowance for credit losses represents management’s estimate of the incurred credit losses inherent within our loan portfolio. For further discussion related to credit policies and estimates see "Critical Accounting Policies and Estimates — Allowance for Loan Losses" within Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2017 Annual Report on Form 10-K.

The following tables present the recorded investment, unpaid principal balance and related allowance for impaired loans, broken down by those with and those without a specific reserve.

	At June 30, 2018		
(in thousands)	Recorded Investment	Unpaid Principal Balance (2)	Related Allowance
Impaired loans:			
Loans with no related allowance recorded	$70,643	$72,481	$ —
Loans with an allowance recorded	2,901	3,378	282
Total	$73,544 (1)	$75,859	$ 282

	At December 31, 2017		
(in thousands)	Recorded Investment	Unpaid Principal Balance (2)	Related Allowance
Impaired loans:			
Loans with no related allowance recorded	$78,696 (3)	$80,904	$ —
Loans with an allowance recorded	5,150	5,288	289
Total	$83,846 (1)	$86,192	$ 289

(1) Includes $65.5 million and $69.6 million in single family performing troubled debt restructurings ("TDRs") at June 30, 2018 and December 31, 2017, respectively.
(2) Unpaid principal balance does not include partial charge-offs, purchase discounts and premiums or nonaccrual interest paid. Related allowance is calculated on net book balances not unpaid principal balances.
(3) Includes $231 thousand of fair value option loans.

The Company had 329 impaired loan relationships totaling $73.5 million at June 30, 2018 and 335 impaired loan relationships totaling $83.8 million at December 31, 2017. Included in the total impaired loan amounts were 298 single family TDR loan relationships totaling $67.5 million at June 30, 2018 and 297 single family TDR loan relationships totaling $72.0 million at December 31, 2017. At June 30, 2018, there were 291 single family impaired loan relationships totaling $65.5 million that were performing per their current contractual terms. Additionally, the impaired loan balance, at June 30, 2018, included $48.7 million of loans insured by the FHA or guaranteed by the VA. The average recorded investment in these loans for the three and six months ended June 30, 2018 was $75.3 million and $78.2 million, respectively, compared to $94.0 million and $92.8 million for the three and six months ended June 30, 2017, respectively. Impaired loans of $2.9 million and $5.2 million had a valuation allowance of $282 thousand and $289 thousand at June 30, 2018 and December 31, 2017, respectively.

The allowance for credit losses represents management’s estimate of the incurred credit losses inherent within our loan portfolio. For further discussion related to credit policies and estimates see "Critical Accounting Policies and Estimates —
Allowance for Loan Losses" within Part II, Item 7- Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2017 Annual Report on Form 10-K.

The following table presents the allowance for credit losses, including reserves for unfunded commitments, by loan class.

(in thousands)	At June 30, 2018			At December 31, 2017		
	Amount	Percent of Allowance to Total Allowance	Loan Category as a % of Total Loans (1)	Amount	Percent of Allowance to Total Allowance	Loan Category as a % of Total Loans (1)
Consumer loans						
Single family	$8,594	21.0 %	28.8 %	$9,412	24.1 %	30.4 %
Home equity and other	7,346	17.9	10.5	7,081	18.1	10.0
	15,940	38.9	39.3	16,493	42.2	40.4
Commercial real estate loans						
Non-owner occupied commercial real estate	4,764	11.6	13.1	4,755	12.1	13.8
Multifamily	5,017	12.2	17.0	3,895	10.0	16.1
Construction/land development	9,205	22.5	15.9	8,677	22.2	15.2
	18,986	46.3	46.0	17,327	44.3	45.1
Commercial and industrial loans						
Owner occupied commercial real estate	3,032	7.4	8.2	2,960	7.5	8.7
Commercial business	3,024	7.4	6.5	2,336	6.0	5.9
	6,056	14.8	14.7	5,296	13.5	14.5
Total allowance for credit losses	$40,982	100.0 %	100.0 %	$39,116	100.0 %	100.0 %

(1) Excludes loans held for investment balances that are carried at fair value.

The following tables present the composition of TDRs by accrual and nonaccrual status.

(in thousands)	At June 30, 2018		
	Accrual	Nonaccrual	Total
Consumer			
Single family (1)	$65,525	$ 2,023	$67,548
Home equity and other	1,238	21	1,259
	66,763	2,044	68,807
Commercial real estate loans			
Multifamily	499	—	499
Construction/land development	665	—	665
	1,164	—	1,164
Commercial and industrial loans			